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Issue 360 03 September 2024

Uncovering potential for beneficial owners

OPERS's Jerry May on the significance of securities lending and the firm's transformation journey

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Freetrade launches securities lending service powered by Sharegain

Investment platform Freetrade has partnered with Sharegain to launch securities lending to its UK retail clients. The new ‘share lending’ service enables its retail clients to generate passive income from lending their stocks and ETFs.

Freetrade was able to launch its securities lending programme with no upfront costs and no additional headcount, says Sharegain.

Anup Patel, head of customer success at Sharegain, says: “Securities lending has been a source of passive income for the largest financial institutions for decades.

“Today, with the launch of their securities lending programme, Freetrade is breaking down those barriers and levelling the playing field — unlocking a new opportunity for private investors in the UK.”

Viktor Nebehaj, CEO of Freetrade, adds: “Sharegain was the perfect fit for Freetrade’s vision of making investing accessible.

“Their innovative solution, coupled with their expertise and white-glove approach, made this launch a success. We are delighted to offer our customers a new way to make money from their investments.”

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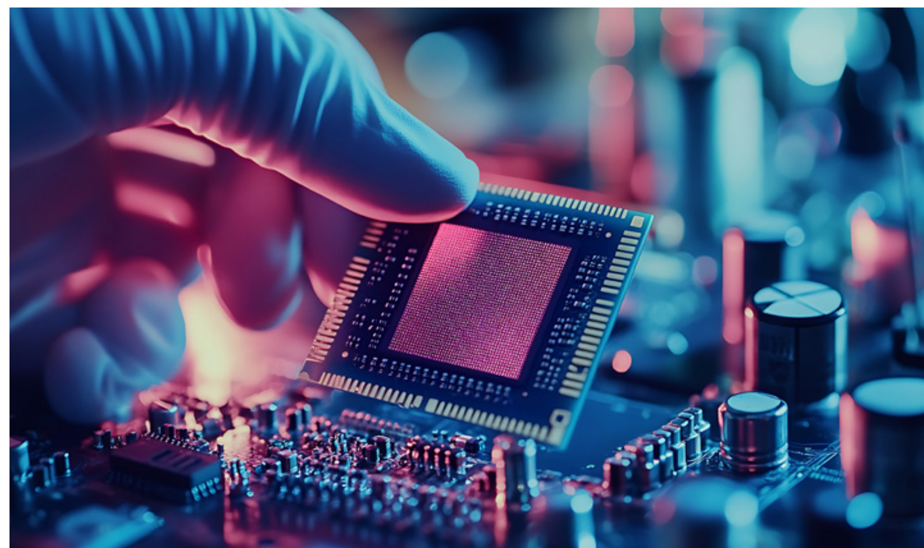


Super Micro Computer beats Tesla in shorted list

Super Micro Computer has overtaken Tesla as the most crowded security in the Americas, a position it has held since May, according to Hazeltree's July 2024 report.

Its Shortside Crowdedness Report is a monthly listing of the top 10 shorted securities in the Americas, EMEA, and APAC regions in the large, mid, and small cap ranges.

The anonymised data comes from Hazeltree's proprietary securities finance platform, which tracks around 15,000 global equities across the regions.

Tim Smith, managing director of data insights at Hazeltree, says: "Semiconductor firms appear to be a focus among short sellers right now.

"Last month we saw multiple semiconductor securities in the top 10 list, and this month's report shows Super Micro Computer and Microchip Technologies maintained staying power in the most crowded shorted securities."

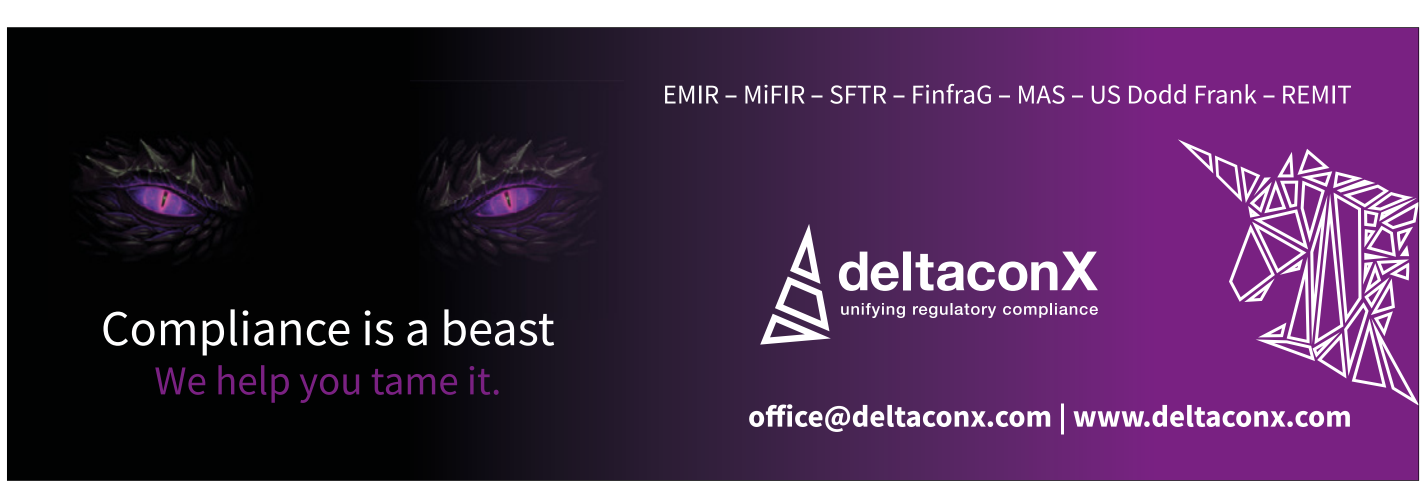
In the large cap category, Tesla, which had been the most crowded security in the Americas since May, fell just behind Chevron in July.

The report also found that LVMH and Toyota kept their positions as the top shorted large cap stocks in their respective regions of EMEA and APAC.

Bloom Energy dominated the mid cap category in the Americas, with a newcomer Winnerbago Industries, becoming the most crowded security in the small cap category.

Nibe Undustrier climbed the ladder throughout July as the most crowded security in the mid cap category for EMEA, while Rohm Co. held the title for APAC in the same category.

A semiconductor IP company, Alphawave IP Group, entered the list as the most crowded security in the small cap category for EMEA, with Money Forward keeping its position in the same category for APAC.



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Lendable inventory tops US$40 trillion

Lendable inventory has topped the US$40 trillion benchmark for the first time in history, according to data from S&P Global Market Intelligence.

The firm says a combination of growth in asset valuations, new inventory from an expanding range of client types, and a raft of innovation has been the driver behind the increase.

Lendable inventories reached a peak of US$40.13 trillion on 27 August, US$1.3 trillion of which came from new participants over the past 24 months, according to the data — highlighting the continued importance of securities lending for both market liquidity, and additional returns for pension and investment funds.

Commenting on the news, Matthew Chessum, director of securities finance at S&P Global Market Intelligence, says: "Securities lending inventory reaching the US$40 trillion milestone underscores the growing significance of securities finance markets in today's financial ecosystem.

"As the demand for liquidity and efficient capital allocation continues to rise, securities lending plays a crucial role in supporting market stability and driving global financial innovation.

"This milestone reflects not just the scale of these markets, but their increasing importance in providing the tools for investors to manage risk and optimise returns. This growth is not just tied to an increase in market valuations, it is also a reflection of an expanding range of asset owners who are choosing to enter the market."

RBC partners with OpenYield

RBC Clearing & Custody will now provide clearing services to OpenYield, a new bond marketplace located in New York City.

As the first alternative trading system on the RBC Clearing and Custody platform, OpenYield offers automatic execution for fixed-income securities without restrictive minimum trade sizes or fees, the firm says.

OpenYield aims to provide an efficient entry to the bond market for participants servicing retail customers.

David Aronow, business development manager at RBC Clearing & Custody, comments: "OpenYield is an exciting start-up with the potential to add significant value to all participants in the fixed-income securities market.

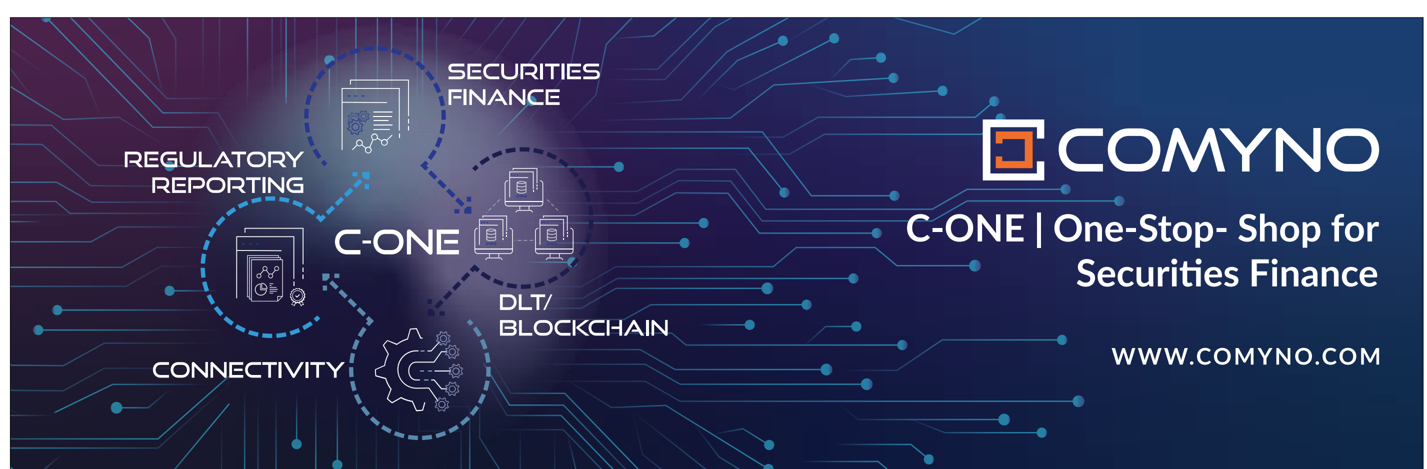
"We are thrilled they have chosen RBC Clearing & Custody to serve their clearing needs — both at their inception and as they grow market share."

Jonathan Birnbaum, founder and CEO of OpenYield, adds: "By modernising the bond trading protocol, OpenYield aims to generate a high volume of tickets, necessitating a trusted clearing broker who is both highly reliable and tech-forward.

"We view this clearing relationship as the start of a broader collaboration across their leading fixed income franchise."

SmartStream updates TLM solution

SmartStream has launched its latest version of TLM Collateral Management solution, developed in partnership with a tier-one bank customer.



The company says the solution, which provides real-time access to data sources via versioned-APIs, aims to enhance decision-making and workflow automation for financial institutions.

Clients will also be able to utilise the system to meet regulatory reporting and jurisdictional requirements.

Jason Ang, global programme manager, TLM collateral management at SmartStream, comments: "In an era where firms are grappling with rising costs, regulatory pressures, increased risk profiles, and the need for better and faster data to manage credit risk, TLM Collateral Management version 7.0 offers enhanced tools to deliver an innovative, robust and stable collateral management platform."

NDF appoints Northern Trust

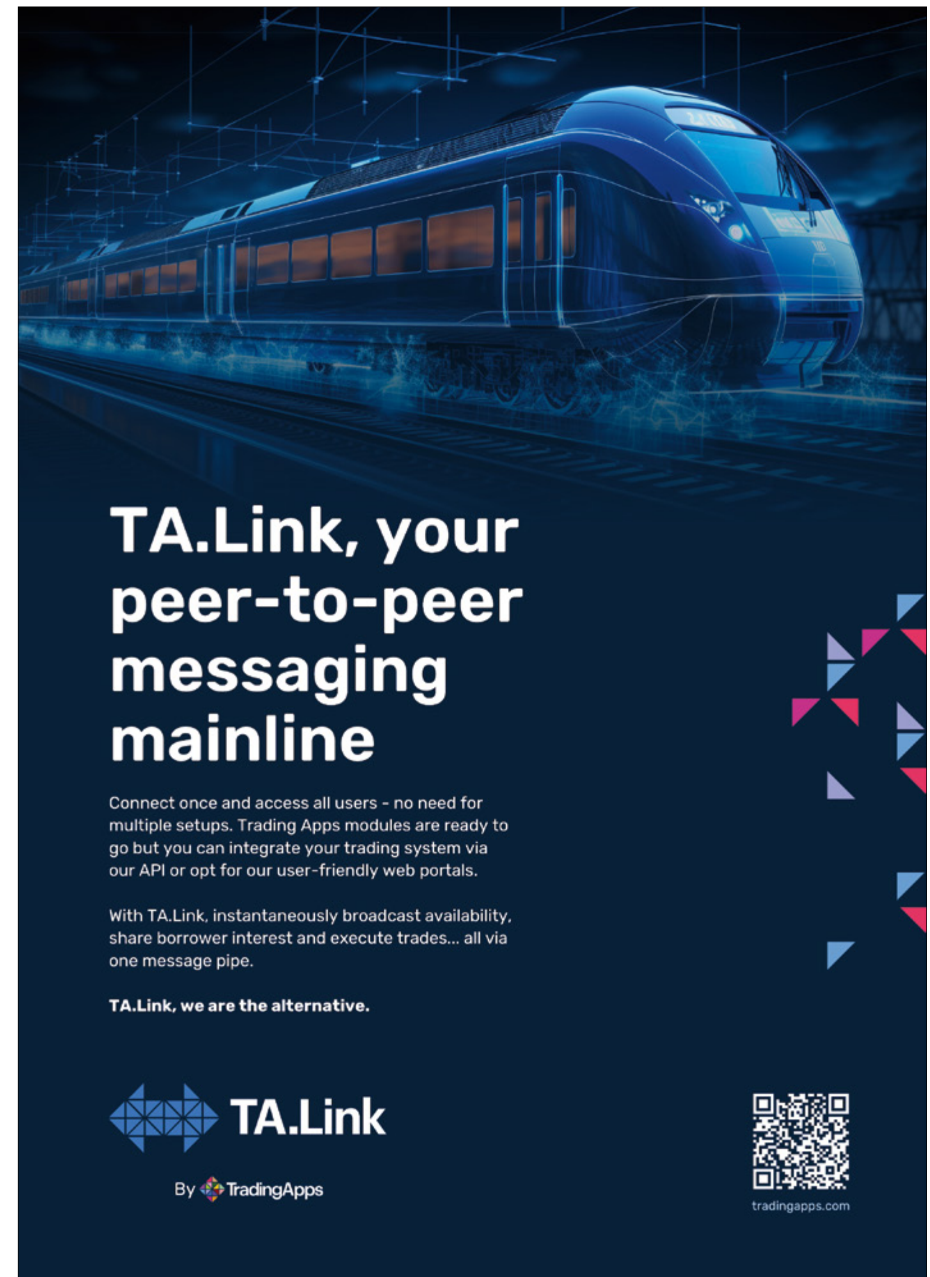
The National Development Fund (NDF) has chosen Northern Trust Company of Saudi Arabia as its custodian for assets under management.

The agreement aims to enhance the NDF's capabilities and achieve its strategic objectives. The companies say the custodian plays a crucial role in transferring capital from development funds and banks, consolidating them under the NDF's umbrella.

The agreement also contributes to improved asset management, increased financial transparency, and efficiency by integrating and simplifying financial operations related to asset management, leading to reduced operating costs, increased effectiveness, and improved operational efficiency and financial security.

Khalid bin Ibrahim Sharif, vice governor of the NDF, says: "We are pleased to choose Northern Trust, a global provider of asset servicing solutions, as they possess extensive experience working with prestigious institutions, sovereign wealth funds, and various development agencies, and have operational models and requirements similar to those of the National Development Fund."

Kholoud Al-Dosari, country head of Northern Trust in Saudi Arabia, comments: "Northern Trust is committed to expanding its services across the region, investing in infrastructure development, and enhancing skills and expertise to support clients and drive progress in the local market. We remain focused on delivering world-class services



and solutions that exceed the evolving needs of our clients."

FICC's Government Securities Division reports 30% jump

The Depository Trust and Clearing Corporation (DTCC) has revealed that its Fixed Income Clearing Corporation's (FICC) Government Securities Division (GSD) processed US$8.8 trillion in daily activity on 31 July.

The new "milestone" figure represents a 30 per cent jump year-over-year (YoY), DTCC reports.

The post trade market infrastructre attributes this "significant and continued growth" to rising volumes and activity in the US Treasury market, as well as the continued expansion of FICC's Sponsored Service.

This service saw a new peak volume of US$1.4 trillion on 15 August, a 78 per cent growth YoY.

Laura Klimpel, head of DTCC's fixed income and financing solutions, says: "FICC's wide range of access models makes it possible for a greater percentage of the market to take advantage of the many benefits of central clearing.

"One of those models, our Sponsored Service, has become an integral part of the US repo market, offering sponsoring members the ability to sponsor their clients into FICC membership to maximise capital efficiency and offer more funding capacity to the market, increasing overall liquidity"

There are now more than 2,400 sponsored members across 50 approved jurisdictions participating in FICC clearing, the firm says.

Sponsoring members of FICC's Sponsored Service act as operational and administrative agents guaranteeing their clients' activity to FICC, while delivering numerous benefits to participants, says DTCC, which includes opportunities to reduce counterparty risk, obtain balance sheet and capital relief, and increase their transaction capacity.

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In July 2024, FICC's Sponsored Service generated an aggregate average of approximately US$500 billion daily in balance sheet savings across the industry, peaking on 31 July at approximately US$616 billion of aggregate balance sheet savings.

SEC charges Icahn Enterprises

The US Securities and Exchange Commission (SEC) has announced charges against Carl Icahn and his publicly traded company, Icahn Enterprises (IEP).

The charges were brought for failing to disclose information relating to Icahn's pledges of IEP securities as collateral, to secure personal margin loans worth billions of dollars under agreements with various lenders.

IEP and Icahn have agreed to pay US$1.5 million and US$500,000 in civil penalties, respectively, to settle the SEC's charges.

Icahn is IEP's controlling shareholder and chairman of the board of directors of IEP's general partner.

According to the SEC's orders, from 31 December 2018, through the present, Icahn pledged approximately 51 to 82 per cent of IEP's outstanding securities as collateral, to secure personal margin loans worth billions of dollars under agreements with various lenders.

Notwithstanding Icahn's various margin loan agreements and amendments, IEP failed to disclose Icahn's pledges of IEP securities as required in its Form 10K until 25 February 2022.

Icahn also failed to file amendments to Schedule 13D describing his personal margin loan agreements and amendments, which dated back to at least 2005, and failed to attach required guaranty agreements.

Icahn's failure to file the required amendments to Schedule 13D persisted until at least 9 July 2023.

The SEC's orders find that IEP violated Section 13(a) of the Securities Exchange

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Act of 1934 and Rule 13a-1 thereunder and that Icahn violated certain beneficial ownership reporting provisions of the Exchange Act.

Without admitting or denying the findings, IEP and Icahn agreed to cease and desist from future violations and to pay the civil penalties referenced above.

Osman Nawaz, chief of the SEC Enforcement Division's Complex Financial Instruments Unit (CFIU), says: "The federal securities laws imposed independent disclosure obligations on both Icahn and IEP.

"These disclosures would have revealed that Icahn pledged over half of IEP's outstanding shares at any given time. Due to both disclosure failures, existing and prospective investors were deprived of required information."

HKMA introduces new project to accelerate tokenisation adoption

The Hong Kong Monetary Authority (HKMA) has launched Project Ensemble Sandbox to facilitate interbank settlement.

Using experimental tokenised money and focusing on transactions involving tokenised assets, the Sandbox will enable experiments for both payment-versus-payment and delivery-versus-payment use cases.

The HKMA assembled a diverse group of industry participants from the financial and technology sectors to participate in the initiative.

Participating banks from the Project Ensemble Architecture Community (the Community) have connected their tokenised deposit platforms to the Sandbox to enable the experiments.

The initial round of experimentation will cover the tokenisation of both traditional financial assets and real-world assets.

It will focus on four main themes: fixed income and investment funds, liquidity management, green and sustainable finance, and trade and supply chain finance.

The SFC, a member of the Community, is responsible for helping to develop a regulatory framework that will support the sustainable growth of the tokenised asset market in Hong Kong.

In addition, the SFC will be co-leading with HKMA on tokenisation initiatives for the asset management industry to promote wider adoption and enhance Hong Kong's position as an asset and wealth management centre.

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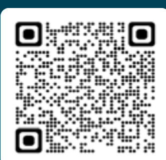

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Eddie Yue, chief executive of the HKMA, says: "The introduction of the Project Ensemble Sandbox to test tokenisation use cases marks a significant step forward for the HKMA and the industry to explore the application of tokenisation in real-life business scenarios.

"Since the launch of Project Ensemble in March, we have been encouraged by the strong interest from the industry in pioneering innovative solutions to redefine the digital finance landscape."

He also outlines a collaborative vision for the future, emphasising partnerships with the Securities and Futures Commission (SFC), other central banking institutions, academia, and industry stakeholders to drive progress in the Hong Kong tokenisation market.

In order to strengthen Hong Kong's position as an international financial centre, the HKMA will continue to engage with the industry to gauge interest in tokenisation, develop new themes, and identify further use cases for tokenisation.

The HKMA will also explore collaborating with the BIS Innovation Hub Hong Kong Centre and engage the CBDC Expert Group to leverage their subject matter expertise to further advance the Sandbox.

Julia Leung, CEO of the SFC, comments: "The Sandbox launch is a clear example of how innovation and regulation can go hand in hand to blaze a new path for our financial markets.

"As two major architects of Hong Kong's financial markets, the SFC and the HKMA share the same vision and dedication to future-proofing the city's financial system through innovative market infrastructure."

EBA updates G-SIIs identification data

The European Banking Authority (EBA) has updated the 13 systemic importance indicators and underlying data for EU institutions.

The publication includes updated numbers and data items specific to the recognition of the Banking Union and institutions that are part of the Single Resolution Mechanism.

This concerns the 33 largest institutions in the EU whose leverage ratio exposure measure exceeds €200 billion.

Acting as a central data hub in the disclosure process, the EBA updates this data on a yearly basis, providing user-friendly tools to aggregate it across the EU.

This end-2023 data will assist competent authorities in identifying a subset of banks as global systemically important institutions (G-SIIs), following the final decision by the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).

A sample of 27 institutions shows that the sum of those banks' total exposures increased by 1.3 per cent at the end of 2023, the EBA reports.

The indicators for securities outstanding and level 3 assets increased by 14.9 per cent and 12.6 per cent respectively, both achieving the highest aggregate value since 2013.

Assets under custody observed an 11.2 per cent increase.

The indicator for payments activity was the only one showing a decreasing trend — down 3.7 per cent from 2022 to the end of 2023.

The identification of a G-SII, which leads to higher capital buffer requirements, falls under the responsibility of national competent authorities.

It is based on the disclosure of global denominators and G-SIB exercise results, which are expected to be published by the BCBS and the FSB in November each year.

Any higher capital buffer requirements will then apply after about one year from the publication by competent authorities of bank-specific results and buffer rate allocation to allow institutions to adjust.

The EBA Guidelines on disclosure of G-SIIs define uniform requirements for disclosing the values used during the identification and scoring process of G-SIIs, in line with the internationally agreed standards developed by the BCBS and the FSB.

Following the Basel Committee's G-SIB assessment methodology from May 2022, the EBA supports the disclosure by EU authorities of the cross-jurisdictional indicators and underlying data items needed to calculate the parallel set of scores specific to European Banking Union banks.

To promote a level playing field in the EU and to increase transparency in the internal financial market, the current level of disclosure goes beyond the minimum standards required by the BCBS, both in terms of the granularity of the disclosed information and the applicable scope of institutions.

Consequently, some of the currently published, group-specific templates belong to institutions that have not contributed directly to the BCBS's G-SIB exercise.

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Uncovering potential for beneficial owners

Jerry May, senior portfolio manager at OPERS and GPFA board member, speaks to Carmella Haswell about the significance of securities lending and how one of Ohio's largest pension funds has shaped its programme over the past two decades

Pension funds play a vital role in the financial markets, both in terms of liquidity, and providing stability. The maturing nature of pensions is a factor that could well impact aspects of the securities finance industry in the years and decades to come.

For Jerry May, senior portfolio manager at Ohio Public Employees Retirement System (OPERS), pensions serve well in the roles for which they have been created — those roles "provide coincident benefits to the securities finance industry".

Pension funds accumulate capital to be paid out as a pension for employees when they retire. Typically, these funds aggregate large sums of money to be invested into the capital markets, such as stock and bond markets, to generate returns. These entities typically hold high quality assets over a long-term basis.

"We are long-term investors, and that perspective is important in what has become a short-term focused environment. As long-term investors, we have a stable distribution of assets that we hold, providing a natural partner for prime brokers and others who seek that type of supply," says May.

Pension funds tend to be very high-quality counterparties from a risk perspective. According to May, most pensions do not have to deal with balance sheet restrictions that banks and brokers must manage. "As each of these is considered, it becomes apparent why pension funds are important participants in this industry."

Enhancing performance

OPERS has been developing its securities lending programme over the past two decades, to facilitate the financing of assets and to invest in short-term markets.

Promoting itself as the largest pension fund in the state of Ohio, the entity was established to provide retirement, disability, and survivor benefits to Ohio's public employees. Its securities lending programme looks to incorporate best practices from many facets of the industry and apply them to its functional internal framework.

May joined the pension fund two decades ago to manage cash and securities lending, with responsibilities transitioning from the daily oversight of investing and lending to overseeing the team that is now doing this on a daily basis.

“Our team is accountable for the success we’ve seen over the last 20 years of activity here at OPERS. We continue to think of new ways to do things and to look for paths that may be outside the traditional structure of securities lending and cash management,” says May.

When he joined the pension fund, May recalls how the lending programme was diversified across a number of agent and custodial providers and had been put together in “a piecemeal fashion” over the preceding years. May’s first goal was to enhance the performance of the lending programme and to ascertain whether any efficiencies could be achieved through consolidation.

In the first step of this development journey, OPERS began to manage cash in-house. Using internal OPERS cash, the pension fund eventually incorporated cash collateral from securities lending. eSecLending was subsequently hired as a new lending agent to manage the lending of OPERS’s US equity assets, and to maximise the returns through an auction programme.

For May, the concept of competition was the foundation of improving the performance of the lending programme. Along the way, OPERS began hiring human resources to support the cash and lending changes that were taking place.

Yet again engaging in a partnership with eSecLending, OPERS’s next major change involved the securities lending trading of its own US Treasuries and mortgage-backed securities (MBS), which was supported by eSecLending’s middle and back office capabilities.

With OPERS acting as the trading desk and eSecLending providing the legal and operations functions, May says the set up provided a “foundational hallmark” of the securities lending programme — managing the asset-and-liability aspects of the programme in an “optimal manner”.

Benefiting the beneficial owner

“Where the past saw securities lending as a way to pay expenses, today’s more sophisticated beneficial owners are realising the potential and importance of having an effective securities finance programme married to advanced cash management options and collateral management tools,” states May.

> "As trading strategies for beneficial owners become more complex, being able to source assets is becoming more important."

Securities lending programmes can be a low-risk way for beneficial owners to generate additional income to their plans. The risk tolerance of the individual plan would determine how much profit that might be, as well as the risk taken to generate it.

This view is perhaps enough for many beneficial owners who engage in securities lending.

May interjects: “I do believe that sophisticated plans with resources that can be allocated to securities finance and cash management are viewing the potential for their programmes to be more than that. That’s one of the main ways that I’ve seen the beneficial owner community advance over the last several years.”

As the securities lending landscape continues to evolve, there are now ways to incorporate derivatives into securities lending trading. Doing so in a competent manner can boost returns and mitigate

risk, May explains. In addition, there are aspects of optimising the management of collateral that can now be included in securities finance considerations. OPERS says enhancing cash management to efficiently establish and manage an asset/liability model is another way that several plans are now contemplating.

Exploring opportunities in non-traditional counterparties is an avenue that participants are taking note of. May pinpoints that some industry players are advancing a transformation in their approach to leverage by incorporating securities lending in that discussion. While others are asking how securities lending, collateral management and cash investing can become integral parts of an effective risk-management effort.

Significance of securities lending

Reviewing the key trends in the securities lending sector over the past year, May names regulatory changes as "one of the most significant concerns" to many investors and beneficial owners.

He continues: "Balancing the oversight necessary for well-functioning markets with a proper degree of having free markets is a very important, yet difficult, line that regulators are walking. Watching how those developments take place, and the potential impacts that may occur on plans like ours, has certainly been growing in consequence."

These regulatory developments continue to make efficient balance sheet management for banks and brokers a pivotal issue, agrees May.

In terms of trends, there also remains interest from investors in the potential for peer-to-peer interactions, including education, trading, and resource management practices.

Aside from his role at OPERS, May is also a board member at the Global Peer Financing Association (GPFA), a non-profit industry association with over 35 global asset owners. The association was started around a common opportunity in the market, which was to promote the education and adoption of peer-to-peer (P2P) trading in the marketplace.

GPFA brings together members with the goal of encouraging the development of a more effective and transparent marketplace for securities financing activities, liquidity management and collateral management. It was officially incorporated as a business association in 2020 by four pension plans — California Public Employees' Retirement System (CalPERS), Healthcare of Ontario Pension Plan (HOOPP), OPERS, and State of Wisconsin Investment Board (SWIB).

As P2P lending continues to develop and grow in importance for the industry, May says this practice should not and will not take the place of traditional lending counterparties. However, he highlights the significance of P2P lending as an avenue for diversification and risk mitigation for which "more beneficial owners are becoming aware".

As trading strategies for beneficial owners become more complex — such as long-short strategies, hedging and derivatives trading — being able to source assets is becoming more important. Moreover, as it becomes increasingly difficult to outperform or positively differentiate oneself from a benchmark index on a consistent basis, having a stable source of alpha that produces every year is a key consideration.

"These concepts point to the significance of securities finance and cash management. Having a diversified source for these strategies becomes paramount to managing risk in a prudent manner," May explains.

He also believes that while the beneficial owner community "may be slow in espousing change", it is not one that is incapable of adjustment. OPERS says it sees a number of plans move down the pathways described to arrive at places that have not traditionally been occupied by their organisations. This "slow pacing" is simply another way for plans to control risk while expanding capabilities.

Resource allocation is a key metric in how rapidly plans can move along that continuum. May suspects it will continue to do so with quickening speed, as innovators among that community prove the concepts that others then adopt.

Over the next year, OPERS will continue to review developments in the regulatory environment, monitor the economic markets and their impacts on the portfolios, and seek partnerships and counsel from others who may be able to help drive the pension fund toward optimal ways of managing the risk and return in its programme.

In conclusion, May says: "I know it sounds trite, but our team is focused on doing the best we can for our pensioners each day. When we take our eyes off that goal there is a danger that we confuse the reason why we are here. Having this noble mission, to help pensioners, keeps us grounded and hungry to do the best we can. Innovation and performance spring from that foundation."

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Securities financing regulatory reporting: What does the future hold?

Significant change is afoot in the SFT and money markets reporting space in the coming years. Kaizen's Money Markets Reporting Director Jonathan Lee reviews the upcoming reporting obligations as regulatory pressures build once again

The post-Securities Financing Transactions Regulation (SFTR) go-live lull looks set to be followed by an unprecedented level of securities financing regulatory reporting activity from now until 2027/2028.

July's Money Market Statistical Reporting (MMSR) extended scope is followed by the US Office of Financial Research (OFR) Uncleared Bilateral Repo reporting in December, the SFTR Review/Refit is likely to commence in 2025, and US Financial Industry Regulatory Authority's (FINRA's) Securities Lending and Transparency Engine (SLATE) reporting goes live in 2026.

Back in 2015, when the Financial Stability Board (FSB) published 'Standards and Processes for Global Securities Financing Data Collection and Aggregation', the principal focus of all securities financing reporting regimes was in identifying global systemic risks in SFT markets and nipping them in the bud before they potentially seeded the next financial crisis.

These were different times — 'Brexit' was not yet in the vocabulary, and the regulatory reporting fines from regulators such as the UK Financial Conduct Authority (FCA) were mounting up. Since then, notably in the securities financing space (seen as one of the unfortunate bedrocks of the crisis) and following SFTR implementation and similar regulations in jurisdictions such as Japan, it has been a sea of calm and light-touch regulation, certainly from an enforcement perspective.

We are starting to see signs that the regulatory pressures are building again, with the introduction of many new regulations, re-writes, re-fits and changes, together with national competent authorities and the central European regulator, the European Securities and Markets Authority (ESMA), which simply cannot continue to cry wolf. To call out failures to close out open term securities loans three years in a row in its 2023 report on the quality and use of data, and not take punitive action, is really testing the patience of the national competent authorities.

SEC goes global

The US has been very slow to fully embrace the full spectrum of SFTs captured by regulatory reporting requirements such as SFTR (all repos, both cleared and uncleared, all buy-sellbacks/sell-buybacks, all securities lending and borrowing transactions and all margin loans entered into under a prime brokerage agreement).

While US triparty repo has been captured by the Federal Reserve Bank of New York from the clearing banks, BNY, and JPMorgan Chase, and cleared repo data has been extracted from the Government Securities Division (GSD) of the Fixed Income Clearing Corporation (FICC) since 2010, the other SFT products are clear gaps. Notably, there has not been any reporting of the uncleared bilateral repo market or securities lending market.

A trade reporting obligation

The US Securities and Exchange Commission (SEC), while late to the party with securities lending reporting, has taken an entirely different tack in framing this as a trade reporting requirement, rather than transaction reporting for systemic risk purposes.

When the SEC's Rule 10c-1a was put to public consultation, it received more than 2,000 responses. Retail investors were demanding fairness, checks and balances, and controls to be put in place around short selling and the securities lending market that facilitates hedge fund equity market plays. Several stock market scandals have left their scars on the market and finally the SEC has decided it is time to act.

Vast expansive scope

One of the key principles of the FSB's framework was that reporting would be collated regionally before being shared globally, in order to identify systemic risks evident in a G-SIBs' global portfolio, not just the operations in a single jurisdiction.

There was a great deal of concern about double counting. If SFT activities were captured in one jurisdiction, they should not be captured and shared in another jurisdiction, thereby overstating the risk. Despite this and with fairness in mind, the SEC does not see it fit to treat non-US residents any differently when it comes to trade reporting obligations.

Given the predominance of US stocks and securities and the prevalence of foreign holders of US stocks particularly in the tech space, this requirement, if followed through with, will result in a vast expansive scope for any lenders of US securities to report, regardless of their jurisdiction or domicile.

Enforcement

You might ask, how can FINRA and the SEC enforce such widespread compliance globally with SLATE reporting?

This question is still to be answered, particularly regarding timeliness of reports in very different time zones. Nevertheless, FINRA and the SEC could attempt to monitor securities settlements, however, making the distinction between outright cash sales and purchases and loans will still be a significant challenge.

Additionally, if the loan is covered by an internal move within the depo of a major financial institution, then this move to cover a short will not be transparent other than to the depo account holder. While all US securities, regardless of where they settle — either domestically, through International Securities Depositories (ICSDs), or central securities depositories (CSDs) — will be subject to cross border cooperation and US registers, FINRA may need to leverage existing reports such as agent lending disclosure to uncover otherwise hidden securities loans. However, potentially, FINRA may have unwittingly bitten off more than it can chew if it expects to have full international compliance on day one.

Indeed, this super-equivalence, which demands that international market participants submit reports to FINRA in the US, does not exist for US firms entering into SFT transactions elsewhere in the world. This would be unlikely to engender cooperation, if the ask is to leverage SFTR reports that would identify US securities being loaned by European market participants in the absence of this definitive information elsewhere.

More reportable fields

Nevertheless, the pressure is on, the number of reportable fields has swelled from 12 data elements to up to 48 fields, and a rather complex web of intraday activities and lifecycle events are required to be reported. It may simply act as the ultimate recruiting sergeant for US agent lenders to wrap up this market on the promise that they will make the necessary reports to FINRA for lenders on behalf of beneficial owners.

OFR uncleared bilateral repo reporting

Barely before the ink has dried on the FINRA SLATE consultation response, the OFR's non-centrally cleared bilateral repo data (NCCBR) reporting will commence for the largest brokers and dealers from 2 December 2024. Other significant financial companies in the US non-centrally cleared bilateral repo market will follow in April 2025.

The OFR requirements are comparatively straightforward, albeit, following an extended period in which there were no hands-on SFT reporting requirements in the US at all.

Reporting firms are required to submit up to 32 fields of data by 11:00 on trade date plus one (T+1) in a user-friendly csv or txt format to the OFR's Data Collection Utility.

The only lifecycle or action type required is the need to resubmit a day's complete submission should OFR enquiries result in the identification of an error.

This approach to regulatory reporting is rather refreshing and most in line with the original 2015 FSB's proposals. In 32 fields, the regulators should have a clear view of potentially systemically significant uncleared bilateral repo market positions.

However, there are a couple of notable omissions with the lack of any provision for bilateral margin and variation margin reporting that typically takes place at the portfolio rather than transaction level. There does not appear to be scope for collateral re-use reporting either.

More is more

The mood music in Europe still appears to be playing the tune of 'More is More' when it comes to regulatory reporting. The European Market Infrastructure Regulation (EMIR) Refit was the ultimate case in point. Despite the Regulatory Oversight Committee (ROC) producing 'only' 110 Common Data Elements (CDE) for adoption in derivative reporting regimes globally, they still found it fit for EMIR to swell from 129 to 203 fields.

There are a number of elements of the EMIR Refit that are likely to be discussed as possible SFTR additions. These include:

- Executing Agent Field — its current absence causes a lot of pain in the trade repository reconciliation process and other fields such as agent lender or broker as misused in its place.
- Effective dates — such that pre-agreed changes to trade economics can be reported as soon as agreed rather than needing to be delayed.
- Intra-group identifier — reducing the burden on regulators to identify inter-group transactions and book transfers.
- Incorporating bilateral variation margins together with CCP margins in a single data table to simplify the margin reporting process and ensure higher levels of compliance. At present, the margin table is solely for reporting CCP margins. Bilateral variation margins must be reported using an intricate collection of collateral updates, with and without unique trade identifiers (UTIs) and is frequently under-reported or misreported.
- Post-Brexit waterfall structure for the generation and sharing of UTIs when trading cross-jurisdiction. At present, the rules

Global securities financing regulatory reporting timeline

Jul-24	Phase 1 Dec 2024 - Phase 2 Apr 2025	2025 - 2027	2026	2028
Confirmed	Confirmed	TBC	Confirmed	TBC
EU	USA	EU & UK	USA	EU & UK
MMSR Scope Extension	OFR Uncleared Bilateral Repo Reporting	SFTR Review	SEC FINRA SLATE Reporting	SFTR Refit

governing the generation and sharing of UTIs only apply within a single jurisdiction, not when trading across jurisdictions, causing confusion, operational pain and late reporting.

- Additionally, event types complementing certain action types, package identifiers (useful for identifying products such as collateral swaps) and the requirement to report the nature and corporate sector of the other counterparty in addition to the reporting counterparty may also be incorporated.

While I would argue that additional fields such as executing agent and effective dates make a lot of sense, together with a rationalisation of margin reporting, it would be good to see ESMA and the FCA being bold and willing to withdraw certain fields too.

The author highlighted to the assembled group of global regulators at the FSB in 2014/2015, that for many of the instrument reference data questions, if 10 different banks were asked for an answer, there would be eight or nine different answers. Unfortunately, the past four years of Kaizen's assurance testing have proven this hypothesis to be true.

The process of requiring firms to provide subjective fields and fields with multiple permissible answers without further detailed guidance or reporting instructions is problematic. This is most evident where not only are ISIN codes required to identify collateral or loaned securities, but reporting counterparties are also called upon to provide CFI codes, credit quality, LEI of the issuer, the jurisdiction of the issuer, collateral/security type and the maturity date of the security as well.

Word has it that the savvy national competent authorities disregard this data anyway on the grounds of its inconsistent and low quality.

What is next?

We are entering a period of significant change in the money markets and securities financing regulatory reporting space. Extraterritoriality in the FINRA SLATE rules for US securities lending, the likelihood of growing requirements in Europe in the SFTR Review/Refit, further new but smaller requirements for uncleared bilateral repo reporting to the OFR in the US, and the potential for further global and European divergence, are all likely to feature over the next couple of years.

This is on top of the ever-present danger of stricter enforcement of SFTR, MMSR, and Sterling Money Market Daily (SMMD), as well as the likelihood of tangible fines re-emerging.

"We are starting to see signs that the regulatory pressures are building again, with the introduction of many new regulations, re-writes, re-fits and changes, together with national competent authorities and ESMA, which simply cannot continue to cry wolf."

Jonathan Lee
Money Markets Reporting Director
Kaizen

Australia: Embracing change amid technological and regulatory overhauls

From central clearing and T+1 to new technology and regional collaboration, Daniel Tison looks at some of the key themes shaping the Australian securities lending market

A market driven by investor hedging demand and the provision of liquidity is how Stephen Howard, CEO of the Pan Asia Securities Lending Association (PASLA), defines the securities finance industry in Australia.

"Both Australia and New Zealand are markets that have stable, pragmatic and robust market structures for all market participants," says Howard. "[They] can be characterised as aligned with investor and issuer needs, and that has been reflected in both long-term investment flows and the growth of indexation products, supported by a broad range of risk participants providing market-driven liquidity."

Consisting of mainland Australia, Tasmania, and several smaller islands, the Commonwealth of Australia is the largest country in Oceania, with a very diverse landscape — from tropical rainforest and savannas in the north, through arid deserts in the centre, to mountain ranges in the south.

Its abundant natural resources and well-developed international trade relations are crucial to the country's economy, which generates one of the highest per capita incomes in the world — US$66,627 as of 2024, according to the International Monetary Fund.

S&P Global Market Intelligence lists Australia among the top five securities lending revenue-generating markets within the APAC region, alongside Japan, Taiwan, Hong Kong, and South Korea. In March 2024, EquiLend recorded 2,049 companies in Australia, with a total market cap of US$1.8 trillion.

With one of the highest endemicity rates, Australia naturally differs from the rest of the world. In terms of securities finance regulation, the main difference is that the country traditionally uses the Australian Master Securities Lending Agreement (AMSLA), while the rest of the world works with the Global Master Securities Lending Agreement (GMSLA).

“The reason for this is that there's capital gains tax (CGT) relief for the AMSLA,” explains Sophie Gerber, co-CEO of the trade and transaction reporting services provider TRAction. “You don't incur CGT if you return the borrowed shares before the end of 12 months.”

Nevertheless, both agreements allow for the collateralisation of loans by cash or alternative collateral of equity or fixed income securities, which are delivered prior to the loan of Australian securities (prepay).

Short selling is permissible in Australia under the Corporations Act 2001, with no pricing requirements for short sale. The threshold for reporting is when a firm’s short position is more than AU$100,000 or 0.01 per cent of the total quantity of securities or products in the relevant class.

Both domestic and international lenders have to lodge collateral before the physical shares can move in Australia. This can be Australian and American dollars, British sterling, or Japanese yen cash, as well as forms of equities and government debt. Standard collateral headroom is 105 per cent of the stock’s market value.

The Reserve Bank of Australia (RBA) operates securities lending facilities on its own behalf and separately on behalf of the Australian Office of Financial Management (AOFM), where eligible counterparties can borrow Australian government bonds (AGS) and semi-government bonds.

“This ensures that these securities lending markets continue to operate efficiently,” says a spokesperson for the Australian Treasury.

Strong competitor, yet prevailing uncertainty

According to Benoit Uhlen, head of market and financing services for APAC at BNP Paribas, the Australian securities lending market is “one of the most efficient, liquid and mature in the region”.

BNP Paribas operates as an agent lender for its custody clients in Australia, and its Global Markets business serves corporate and institutional clients in the country.

“Australia distinguishes itself from other APAC markets, as it offers a greater emphasis and focus on cash collateral, specifically in Australian dollars,” says Uhlen. “While the Japanese yen is under the limelight from a cash perspective, Australia leads the way for cash reinvestment structures and opportunities in the region.

"The levels of sophistication in Australian lenders are proliferating due to the need for Alpha, the contraction of the numbers of lenders, and the expansion of knowledge brought to these businesses from these mergers. The demands in terms of mechanisms like RAPIDs or proxy callable voting lead to the Australian market differentiating itself from many other markets in APAC."

DataLend’s dataset shows that the Australian market has had an excess of US$19 billion of demand-driven flows annually over the past decade, utilisation rates average around five per cent, and broad market fees deliver returns in the range of 35 to 95 basis points.

In terms of utilisation rates, Howard compares Australia to Hong Kong, for its hedging demand, yet the Australian market pricing is closer to Japan, he says, which means “a more efficient market operating at scale with many active market participants”.

The Australian Securities Exchange (ASX) settles equities daily in a multilateral net batch process to facilitate the settlement process. The incidence of market participants failing to deliver their equity is “very low”, according to the Treasury, which attributes this to “the reliability of this process”. ASX’s analysis of settlement failure rates between 2019 and 2023 set the average around 0.3 per cent (volume-based) and 0.1 per cent (value-based).

However, Australian equities have been underperforming in comparison to their peers across the APAC region. S&P Global Market Intelligence reported a 21 per cent year-over-year (YoY) decline in Australian equities lending revenues for the first half of 2024, generating US$56 million, while Asian equities as a whole declined by just one per cent YoY.

Over the past four years, an average of 56 per cent of all market revenues have been derived from securities finance of small cap equities within the country, according to S&P Global Market Intelligence. Many of these stocks belong to the Australasian materials sector, which has recently been under pressure due to the slowdown in economic activity across China.

The highest revenue-generating stock for July was Vulcan Energy Resources, with US$780,000 in returns. Other popular borrows focus on the Australasia semiconductor sector, such as Weebit Nano, and the software and services sector like Brainchip Holdings.

According to Matt Chessum, director of securities finance at S&P Global Market Intelligence, both of these sectors have attracted borrower interest globally as geopolitical risk and the AI boom have remained “prominent themes” throughout the first half of 2024.

In 2023, mineral-related stocks, such as Pilbara Minerals, Core Lithium, and Liontown Resources, drew a lot of interest from borrowers as Lithium prices tanked and positioning took place in regard to some of the identified shorts across the electric vehicle sector, Chessum says.

In the fixed income market, the borrowing of Australian government bonds has been on the rise. Annual lending revenues have grown from US$10.5 million in 2020 to around US$42 million in both 2022 and 2023. Utilisation across the asset class has grown to around 32 per cent throughout 2024, with volume-weighted average fees sitting around 14bps.

While for most major economies, inflation has been falling, and many other central banks across the world have started reducing interest rates as a result, this is not the case in Australia, as uncertainty continues to prevail. Therefore, interest rates remain higher than in other countries.

According to Chessum, this slows economic activity, as borrowing is more expensive, and companies find it more challenging to borrow and invest. He says: “There is uncertainty as to whether rates will need to rise again or not. This uncertainty leads to increased levels of speculation by investors and a greater potential for short selling.”

How clean is your market?

The key regulator for local securities is the Australian Securities and Investments Commission (ASIC), which is an independent Australian government body.

ASIC’s report from July 2024 showed that Australia’s equity markets “continue to operate with a high level of integrity and remain consistently among the cleanest in the world”.

Commenting on the report, ASIC Chair Joe Longo said: “Clean financial markets are essential for the financial wellbeing of Australians and fundamental to an efficient economy. They enable businesses to raise capital and manage risk and give investors confidence to invest.”

The report found that there were two periods of temporary deterioration in market cleanliness in the five years up to 30 April 2024. The first was during the coronavirus pandemic, when global markets experienced high market volatility and trading, and the second one was in late 2023 as corporate activity increased. In both instances, ASIC claims to have addressed the harmful conduct through regulatory interventions.

To enhance its enforcement capabilities further, ASIC is establishing a dedicated criminal investigation team to progress insider trading investigations and increase the number of criminal briefs referred to the Commonwealth Director of Public Prosecutions.

Longo adds: “We will continue to invest in data and technology to hunt and detect all forms of market misconduct. As our financial landscape evolves, we will expand our market cleanliness work to capture private markets and products in the coming year.”

Increasing potential for a CCP

Due to the absence of a central counterparty (CCP) in the Australian bond and repo markets, clearing occurs bilaterally and “reflects the complex web of transactions” that occur between participants, according to the Council of Financial Regulators (CFR).

The Australian bond market plays an important role in the country’s economy, says the CFR, while repos are the key instruments used by the RBA to conduct its domestic market operations and to provide liquidity through its standing facilities.

RBA’s analysis from 2023 indicated that the potential benefits of central clearing in the Australian market had increased since the bank’s consultation on the topic in 2015.

Changes like “substantial” growth in the size of the market and increased participation of non-resident investors have strengthened the case for central clearing, according to the paper.

“Central clearing would simplify the market structure and could yield other benefits, especially in times of stress,” says RBA. “For example,

our estimates suggest multilateral netting has the potential to lower settlement obligations by US$60 billion per day."

In response, the CFR is currently holding a consultation on reassessing the case for central clearing of bonds and repos in Australia. By 4 September, the council is seeking feedback from stakeholders regarding the introduction of a CCP.

By this move, the CFR aims to increase its understanding of the circumstances under which an overseas provider could safely and efficiently operate a bond and repo CCP, and what additional protections may be required in such a scenario.

The Treasury adds: "The introduction of central clearing may serve to increase efficiency, integrity, and stability, while providing a focal point for regulation and risk management. However, central clearing also incurs operational costs and concentrates counterparty risk while benefits are not experienced equally across participants."

Obstacles on the way to T+1

With the US, Canada, and Mexico having moved to the T+1 settlement cycle this year, there is currently a discussion about whether Australia and other APAC markets will follow suit. Although China already uses T+0 for stock settlement and T+1 for cash settlement, the rest of the region continues to operate on a T+2 basis.

Located in the Australian Eastern Standard Time (AEST) zone, the capital city of Canberra is nine hours ahead of London and 14 hours ahead of Washington DC. Besides a strong jet lag for travellers, the time difference brings certain challenges when it comes to shortening the settlement cycle.

"Australia currently effectively settles at T+1½, with settlement processing at midday on T+1," says the Treasury. "This means that a move to T+1 is likely to require an adjustment to the timing of certain operations throughout the trading day."

For investors from the East Coast of North America and the UK, the move to T+1 would mean that the majority of their trade processing and matching would need to happen overnight when investing in Australia — essentially T+0.

Another obstacle on the way to T+1 is that its implementation overlaps with the ongoing development of a new electronic system for clearing and settlement, which may significantly delay the process.

The Australian cash equity market uses the ASX's Clearing House Electronic Subregister System (CHESS) for all trades executed on ASX, Cboe Australia, National Stock Exchange of Australia (NSX), and Sydney Stock Exchange (SSX). The system, accommodating around 2,200 listed companies and nearly four million investors, currently works on a T+2 settlement cycle.

> "Central clearing would simplify the market structure and could yield other benefits, especially in times of stress."

However, ASX is currently developing a replacement for CHESS, which will allow more flexibility in settlement cycles. Besides T+1, the new system should provide capacity for further changes, according to ASX, which plans to implement the new system in two releases.

The Treasury says: "A potential move to T+1 must be considered with respect to Australia's position and balanced with the safe delivery of the CHESS replacement project, which serves to modernise Australia's critical financial market infrastructure."

Release 1, taking place in the first half of 2026, will replace the clearing component of CHESS and introduce Financial Information Exchange (FIX) messaging for trade registration. "Release 2 will replace the settlement and subregister functionality, deliver improved corporate action functionality, and make further enhancements to clearing", ASX says, setting the deadline to early 2029.

On 2 August 2024, ASX published a summary of feedback from industry stakeholders who indicated that "while the transition to T+1 is not urgently required, there is a need to find the balance between the safe delivery of CHESS replacement and alignment with global markets".

Some respondents of the consultation also suggested that T+1 could impact the availability of lendable securities or the willingness of participants to lend securities in Australia, and they agreed that regulatory reporting requirements should be considered to accommodate the shorter settlement cycle.

As a member of the ASX, BNP Paribas participated in the white paper, providing lessons learned from T+1 implementation in the US market. According to Uhlen, the adoption of T+1 could reduce securities lending in Australia due to recall challenges, and general collateral fees could increase in the early stages of the change.

ASX adds: “While further discussions are needed on the T+1 solution and implementation plan, it is evident that the market recognises and values the critical priority of CHESS replacement ahead of additional developments or projects.”

In addition to the feedback summary document, ASX has also launched a public consultation on Release 2 of CHESS replacement, which is running until 13 September.

Collaboration across the region

The Australian Securities Lending Association (ASLA) was formed in 1991 to represent industry participants in regulatory and other relevant issues and promote standardisation throughout the industry.

Meeting regularly to support the future development of the securities lending industry in Australia, the association currently represents 33 members from investment banks, custodian and commercial banks, brokers, legal firms, and IT providers.

In June 2024, ASLA signed a letter of intent with PASLA to help it expand its reach to the Australasia region. For Howard, it is an opportunity to develop PASLA’s Working Group structure and “generate high-quality content” for its members.

He adds: “As an association, we already operate at a regional scale with our advocacy, and this approach will continue to enable a strong level of consensus building from within the industry in our dialogue with exchanges, regulators, and various policymakers across Asia, Australia, and New Zealand.”

Both associations are currently collaborating on the execution and details of the final agreement, which they aim to complete by Q4 2024.

Optimistic predictions

As the Australian securities lending market continues to evolve, new opportunities for increased efficiency and growth arise, accompanied by inevitable challenges. While its unique regulation frameworks provide certain advantages for market participants, rising regional collaboration may strengthen Australia’s position in the global securities finance landscape.

“This is a market driven by investor activity,” says Howard, “and that pathway will continue, driving more change, opportunity, and, no doubt, a few challenges along the way.”

Looking ahead, Uhlen says: “We anticipate a concentration of superannuation funds, which will transform the lending landscape, with more negotiation powers in the hands of a smaller group of big players.

“We think the agent lenders’ role could expand beyond the pure role of generating yield enhancement, ie entering the space of managing and optimising clients’ liquidity and collateral needs. This will require closer understanding, product offering, and interconnectivity between clients and service providers, which is an exciting challenge to embrace.”

Over the next five years, the Treasury expects to see the CHESS replacement project approach its completion, which will increase daily trade volumes, and the securities lending market may become “deeper and more liquid”.

Following that, Australia will be ready to implement T+1 and align with other major global markets, which may enhance Australia’s reputation and competitiveness, as some respondents of the ASX’s consultation argued.

“We also expect that the service providers in the securities lending market will continue to innovate and evolve,” adds the Treasury’s spokesperson. “This may include the emergence and more widespread use of technologies such as distributed ledger technology, which may also service market demands in new ways.”

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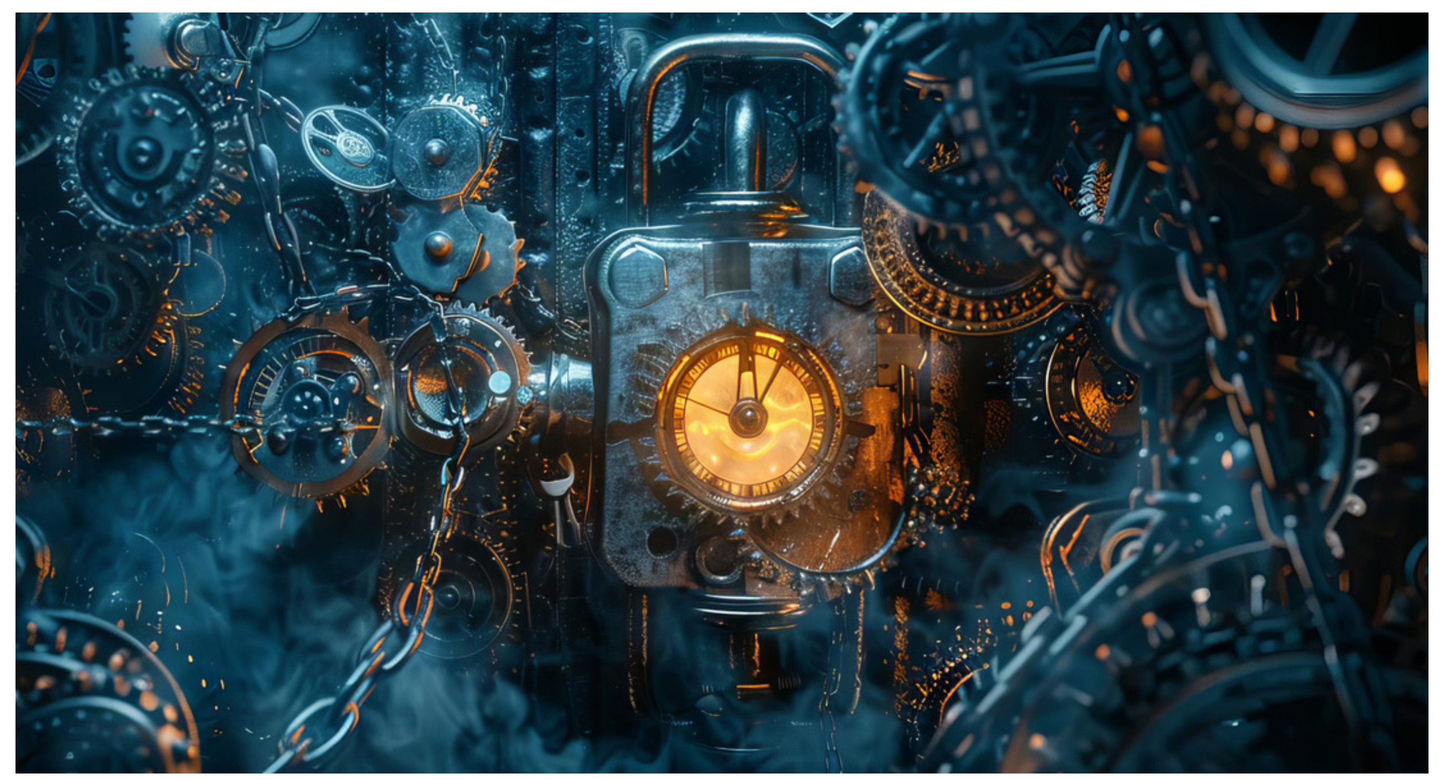


Unlocking liquidity and stability: The benefits of using fixed income ETFs as collateral

The use of fixed income ETFs as collateral represents an enormous opportunity for the financing markets, says Matthew Chessum, director of securities finance at S&P Global Market Intelligence

Exchange traded funds (ETFs) continue to gain popularity among both investors and institutions across the global financial ecosystem. As the securities lending and repo markets continue to evolve, these instruments offer unique benefits to borrowers and lenders, not just as lendable assets, but also as sources of collateral.

According to S&P Global Market Intelligence ETF data, fixed income ETFs currently account for approximately 22 per cent of the entire ETF market, in terms of assets under management (AUM). The creation of both passive and active fixed income ETFs is a growing trend within the ETF industry, and this percentage is expected to grow substantially over the next two to five years.

As fixed income ETFs are more aligned with the traditional asset classes used for collateral purposes (notably government bonds and other types of high-quality liquid assets), the use of fixed income ETFs as collateral represents an enormous opportunity for the financing markets.

As a result, a growing number of institutions are now accepting fixed income ETFs as collateral. S&P Global Market intelligence shows that the value of ETF collateral balances has grown approximately 35 per cent over the last four years.

Using fixed income ETFs as collateral

One of the primary benefits of using fixed income ETFs as collateral is their liquidity. Fixed income ETFs are typically more liquid than individual bonds, especially in secondary markets where trading volumes of specific bonds can be low. This liquidity makes ETFs a

more attractive and versatile option for collateral, enabling faster and more efficient transactions.

Another significant advantage is diversification. Fixed income ETFs often hold a basket of bonds, spreading risk across multiple issuers and sectors. This diversification reduces the exposure to any single issuer's credit risk, which can be a concern when using individual bonds as collateral. For collateral takers, this means a lower probability of a significant loss if a single bond issuer defaults.

Market innovations, such as S&P Global Market Intelligence ETF collateral lists, also offer full transparency into these assets. The ETF collateral list product uses ETF data to bring transparency, efficiency, and automation when selecting ETFs to be included in collateral management programmes.

Collateral receivers can customise parameters to suit their organisation's risk profiles and mandates to screen the universe for ETFs that meet their eligibility standards. A collateral receiver can therefore receive daily updates on their holdings, allowing both parties in a collateralised transaction to have clear visibility into the underlying assets. This transparency builds trust and reduces uncertainty, particularly during times of market stress.

Common challenges

Despite their benefits, using fixed income ETFs as collateral can present some challenges. One issue is price volatility. While ETFs are generally liquid, their market prices can still be subject to significant fluctuations, especially during periods of financial instability.

This volatility can complicate collateral valuation and may require more frequent margin calls to maintain appropriate collateral levels. This potential issue is usually offset by using higher levels of margin when posting the assets.

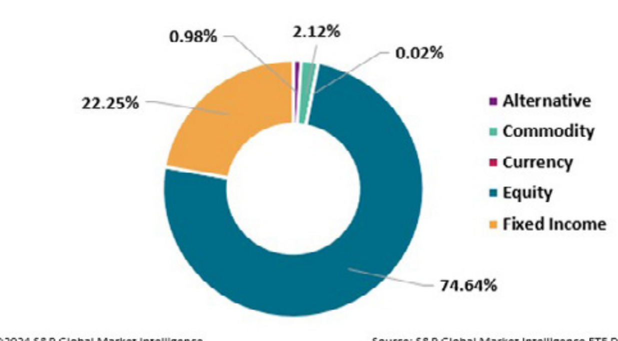
Another concern is tracking error. Passive fixed income ETFs are designed to replicate the performance of a bond index, but they do not always do so perfectly. Factors such as fees, rebalancing, and market conditions can cause the ETF's performance to diverge from the underlying index. This discrepancy may introduce additional risk for the collateral taker, who might not be fully compensated if the ETF underperforms relative to the assets it is supposed to represent.

By ensuring that the asset is regularly priced while displaying sufficient levels of market liquidity, as any collateral taker normally would with their other acceptable assets, this issue can be effectively managed.

Opportunities

Despite these challenges, there are growing opportunities for using fixed income ETFs as collateral.

ETF AUM by asset class (as a % of total AUM)



Regulatory changes and market evolution are pushing for more standardised and efficient collateral management practices. As regulators demand higher-quality collateral, fixed income ETFs, especially those with high-grade bond holdings, are likely to see increased demand.

Moreover, the development of new ETF structures and enhanced liquidity provisions could mitigate some of the current issues. For example, the rise of actively managed fixed income ETFs, which aim to outperform their benchmarks, could offer more stable returns and lower tracking errors, making them more attractive as collateral.

Lastly, the growing acceptance of ETFs in collateral frameworks by central banks and clearing houses provides a significant opportunity. As these institutions begin to accept ETFs more broadly, the role of fixed income ETFs as collateral is likely to expand, offering new avenues for financial institutions to optimise their collateral portfolios.

With the ongoing market developments and regulatory changes, fixed income ETFs hold significant potential as a mainstream collateral type, paving the way for more innovative and efficient collateral management strategies in the financial markets. This will benefit the entire securities finance ecosystem as the importance of collateral flexibility continues to grow.

Finding unique relationships within securities lending data

In the latest of our series, Daniel Tison speaks with emerging talent Travis Whitmore, head of AI and trading analytics at State Street Associates, about the role of prediction models in securities finance and the importance of being proactive

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

I joined State Street Global Markets in 2017 through a rotational leadership programme called the Professional Development Program. It provided an excellent opportunity to rotate through various trading desks, and gain a deep understanding of the capital markets products State Street offers to clients, one of which is securities lending. My third rotation, and ultimate full-time placement, was with our quantitative research team — State Street Associates. This was where my foray into securities lending research started.

My first responsibility was to help develop models and research specifically for our prime services and securities lending desks. The experience built a strong foundation to work from while providing a wonderful view into the dynamics of the securities lending market.

From there, I took on expanded research roles beyond securities lending and continued to work with State Street Associates' academic partners from Harvard, MIT, and Boston College, which provided me with deep insights into investor behaviour and economic theory, and has influenced our research approach for securities lending. The interplay between lender supply and borrower demand, and how these dynamics influence, and even predict, asset prices continues to draw my interest.

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

An exciting aspect of the research role is what I believe to be a huge opportunity to develop quant models that deepen our understanding of the securities lending market. One recent project has taken advantage of State Street MediaStats indicators of stock-level sentiment signals from digital and social media. This inspired us to prototype a model leveraging social media attention and digital media sentiment in combination with securities lending data to better predict meme stock short squeezes. This theme has come under focus with recent market events, and we have found value in these signals.

Another exciting project that is of particular near-term focus for me is to draw on the expertise and knowledge across State Street Associates and the business to build a prediction model for securities lending fee directionality. The goal is to enhance our ability to identify stocks that may observe a large increase in fees over the next week or month.

The most rewarding aspect of these projects is finding unique relationships within securities lending data and with other alternative datasets, such as media sentiment. Communicating the insights we derive from our models to State Street's clients and discussing with other industry participants is always a rewarding experience as well.

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

State Street, and in particular, State Street Global Markets, has been excellent in providing numerous opportunities to grow professionally and develop new skill sets. The Professional Development Program sets a strong foundation for me and others who graduated from the programme. Being able to rotate onto different business lines provides a great view into different capital market products, and enables individuals to develop diverse skill sets that they otherwise may not have been able to.

> "Don't be afraid of new projects or new opportunities — you never know where these things will take you."

Additionally, we have a number of mentoring and shadowing initiatives that enable individuals to engage deeply with other businesses and different roles. Most impactful for me has been the incredible opportunity to relocate internationally from Boston to Frankfurt in February 2022 to lead the State Street Associates initiative in continental Europe. This experience will have a long-lasting impact on me, both personally and professionally.

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

Perhaps when first starting off in the industry, I had an expectation that there would be a more individualistic, winner-

takes-all culture. However, at least from my experiences over the last seven years in State Street Global Markets, this has not been the case.

While, of course, there is an expectation that the best ideas should come through, there is a collaborative effort across the businesses. Everyone here is more than happy to discuss their thoughts and help answer questions or provide guidance. This is extremely beneficial from a career growth perspective, especially for those who are just starting off in the finance industry.

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

Having spent close to three years establishing a strong global market research presence across continental Europe, I feel ready to take on a new challenge. Fortunately, the opportunity has presented itself again at State Street Associates. As a result, I am relocating back to Boston in August to build out a new team, tasked with developing machine learning models and innovative predictive analytics research in support of a wide range of markets and lending businesses.

Through this experience, I am looking to develop my leadership skills, improve my ability to share forward-thinking data techniques across teams, and implement practical new approaches to data-driven modelling with a wide range of use cases and experts across our business. This includes taking full advantage of the incredible progress in generative AI technologies.

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

Always be open-minded and work hard! There is so much to learn from the experience and knowledge of those around you, and being open-minded enables you to absorb as much of it as you can. Then work hard to apply the knowledge you have learnt.

Also, get out of your comfort zone to try new things! If you are working repeatedly in Excel, then try writing a Python script to automate it, for example. Being proactive helps you stand out and is usually appreciated by everyone. Lastly, do not be afraid of new projects or new opportunities — you never know where these things will take you. ■

Travis Whitmore

Travis Whitmore is the head of AI and trading analytics at State Street Associates, the partnership between State Street Global Markets and renowned academics at Harvard Business School, MIT Sloan School of Management, Boston College, and EDHEC Business School.

His team is responsible for developing machine learning models and innovative predictive analytics research in support of a wide range of markets and lending businesses. He is also responsible for driving research initiatives for State Street's financing solutions business, including thought leadership, predictive models, and client engagements.

Whitmore is relocating back to Cambridge, MA, from Frankfurt in August, where he spent nearly three years leading State Street Associates' research initiative in continental Europe. He worked with institutional clients across the EU 27, delivering custom advisory projects, providing quantitative research insights, and presenting findings at industry conferences.

Before his role in Europe, Whitmore worked closely with Harvard Professor Ken Froot to develop innovative investment applications with State Street Associates' proprietary custody flows and holdings information. Additionally, he worked with State Street academic partners at MediaStats to research how investors can leverage digital media sentiment indicators in their investment decision-making.

Whitmore has developed numerous quantitative investment models, published research in *The Journal of Portfolio Management*, and is a frequent presenter at industry events He was awarded the 'Rising Star' prize at the Securities Finance Times Industry Excellence Awards 2023 for his research on the securities lending market.

Whitmore earned a degree in finance and computer science from the University of Vermont.

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FIS onboards Walker

FIS has appointed Martin Walker as senior product analyst within the firm's securities finance and collateral business.

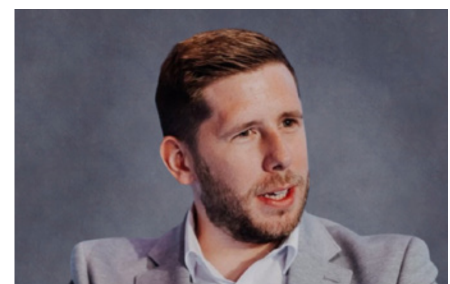
Based in London, Walker will help build out new securities finance platforms.

Walker will be part of the team headed by Igor Salzgebar, vice president and business executive for FIS Securities Finance Suite, which comes under the FIS Capital Markets Trading and Asset Services division.

He joins the team after seven years as head of product for Securities Finance and Collateral Management at Broadridge Financial Solutions.

During his time with the company, Walker managed product managers and business analyst teams. He was jointly responsible for product strategy, competitor analysis and innovation, as well as client implementations and product enhancements.

Walker joined Broadridge from a stint at R3 CEV, a provider of distributed ledger technology (DLT) and services, where he was a product development consultant.



Pikett joins BNY

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.

Kayenta appoints Brady

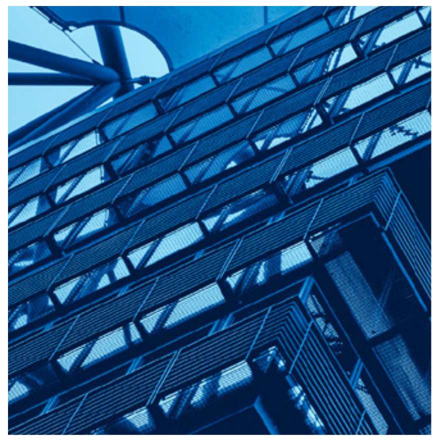
Kayenta, a hedge fund treasury technology solutions provider, has hired Matt Brady as managing director, Americas head of distribution.

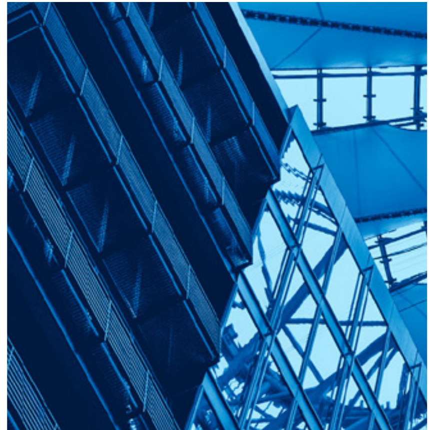
Based in New York, Brady will oversee all distribution initiatives, working closely with the executive team to drive client acquisition and revenue growth.

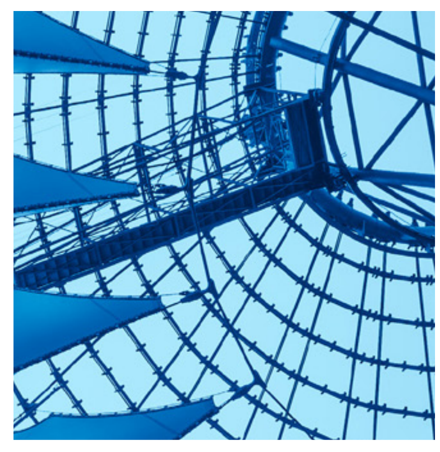
He brings more than two decades of experience in global financial markets to the role, alongside a track record of leadership and strategic growth across multiple leading financial institutions.

Brady joins from Citigroup, where he served as managing director in the Global Markets division, leading sales, distribution, marketing, and strategy for the Equity Synthetics offering with the global financing and prime framework.

During his career, Brady also held leadership roles at Morgan Stanley and Bank of America Merrill Lynch.







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Broadridge enlists Robertshaw

Broadridge Financial Solutions has appointed Simon Robertshaw as chief technology officer for front office trading capabilities.

Based in London, Robertshaw will be responsible for trading capabilities across asset classes and jurisdictions for both the buy side and sell side.

Robertshaw joins the company from his previous position as chief operating officer at The Bank of London.

He has over 20 years experience in leadership roles across UBS, Wachovia Bank, Goldman Sachs, and J.P. Morgan.

Jason Birminham, global head of engineering at Broadridge, states: "Simon's impressive track record and his expertise in trading technology, across global markets, are an invaluable asset and will enable us to continue advancing our trading solutions for financial institutions."

BNY recruits Wellington

BNY has welcomed Deborah Wellington as service director, asset servicing client experience.

Prior to her new position, Wellington served in client services at State Street for two years.

Before this, she worked at HSBC in a variety of roles including head of Client Services UK, Markets and Securities Services.

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