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Garnering incremental income

SWIB's Mike Stamm and Tim Wirkus discuss its work to further collateral optimisation, and how regulatory shifts are influencing the role of pension funds

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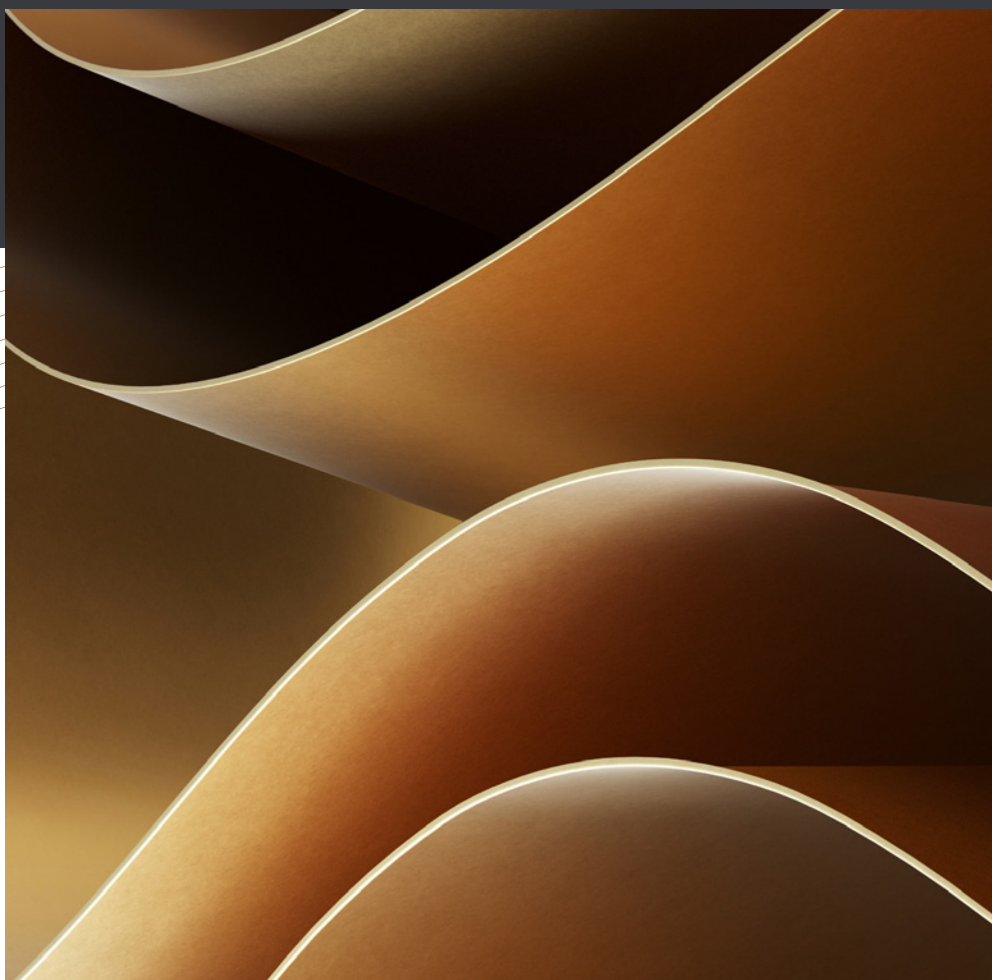

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Al Rayan Bank and HSBC complete ESG KPI-linked repo transaction

Al Rayan Bank and HSBC have completed their first key performance indicator (KPI) linked repo as part of Qatar's environmental, social, and governance (ESG) strategy.

The deal aims to support Al Rayan Bank's transition journey, following the launch of its Sustainable Finance Framework in April 2022.

The structure includes sustainable performance targets (SPTs) that Al Rayan Bank aims to reach within the next three years.

"We are fully committed to delivering on the SPTs as part of our ESG strategy that also indicates the progress that the bank is making on its transition journey," says Fahad bin Abdulla Al Khalifa, group CEO at Al Rayan Bank.

He added that HSBC was one of the key partners that Al Rayan Bank collaborated with to develop an outline for ESG-related activities and projects.

Abdul Hakeem Mostafawi, CEO of HSBC in Qatar, adds: "Transactions like the first Islamic ESG KPI-linked repo demonstrates the importance and focus HSBC places in helping our clients achieve their ambitions in their net zero journey in Qatar.

"This landmark transaction further builds on the close collaboration we have with Al Rayan Bank in partnering with them on their transition journey."

The State of Qatar committed to achieving net zero carbon emissions by 2050 at the 144th General Assembly of the Inter-Parliamentary Union (IPU) in March 2022, and the Qatar Central Bank released its ESG and Sustainability Strategy for the financial sector in June 2024.

MUFG EMEA and Qatar-based Doha Bank closed their first green repurchase scheme in the Middle East and North Africa (MENA) region in September.

Inside this issue

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FAB to build agency securities finance business

First Abu Dhabi Bank (FAB) has chosen Broadridge Financial Solutions to support the build-out of its global agency securities finance business.

Broadridge believes that its Securities Finance and Collateral Management (SFCM) solution will allow FAB to enhance its coverage of global fixed income and equities markets.

"This collaboration caters for the growing demand for securities lending and borrowing within the Middle East, and is aligned both with local regulatory needs and with international best practices," says Darren Crowther, head of SFCM at Broadridge.

With origins dating back to 1996, SFCM accommodates agency and principal trading for equities and fixed income, supporting all securities finance trade types — from smaller direct lenders to global custodians and brokers.

As FAB navigates the evolving landscape of securities borrowing and lending regulations in the Middle East, this collaboration aims to bring new opportunities and efficiencies that will benefit clients across the globe.

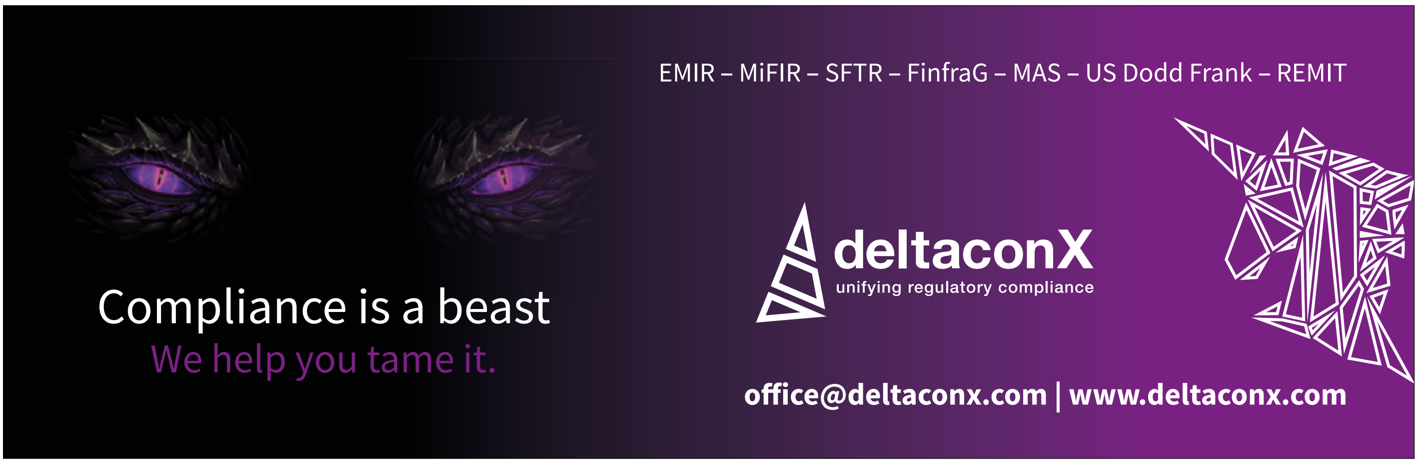
Maybank Securities and Citi facilitate securities lending for retail investors

Maybank Securities has collaborated with Citi to facilitate the lending of retail clients' global equity holdings in Singapore.

The collaboration enables clients of Maybank Securities to earn a portion of the fees paid by borrowers of securities and unlock the potential to monetise "otherwise idle assets".

In addition, it allows Maybank Securities to enhance the investment opportunities available to its retail clients, providing share lending capabilities, the firms say.

The move also marks the introduction of the Citi Securities Lending Access (CSLA) platform in Asia.



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Maybank Securities will use its position in Singapore and its ASEAN client base to utilise CSLA. Launched in 2021, CSLA combines Citi's securities lending platform with technology from Sharegain.

It offers a solution that digitises the entire securities lending lifecycle and democratises the securities lending market, says Citi.

Commenting on the news, Eusebio Sanchez, head of execution services for Japan, Asia North and Australia and Asia South at Citi Securities Services, says: "With CSLA, Citi is enabling a broader base of market participants to reap the benefits of securities lending.

"In addition to benefiting our clients and their underlying customers, the solution gives borrowers access to new pools of untapped securities."

Alexander Thorhauge, head of retail business at Maybank Securities, adds: "Maybank Securities stands by its commitment to continuously enhance our products and solutions for our clients.

"With the launch of securities lending, our retail clients now have a unique opportunity to generate additional returns from their existing portfolios."

EquiLend's NGT platform up 3% in executed trades

EquiLend executed 2,722,358 trades on its NGT platform in November, generating US$3.06 trillion — a 3 per cent increase year-on-year.

The yearly growth comes as demand was strong for US and emerging market corporate bonds. Despite this, the figure represents a 10 per cent decline from October.

According to Mike Norwood, head of Trading Solutions at EquiLend, the US election was the driving factor as speculation on future policy being more business-friendly drove indices higher.

Positive macro data and further central bank rate cuts (Federal Reserve, Bank of England) also contributed to positive returns and dampened volatility.

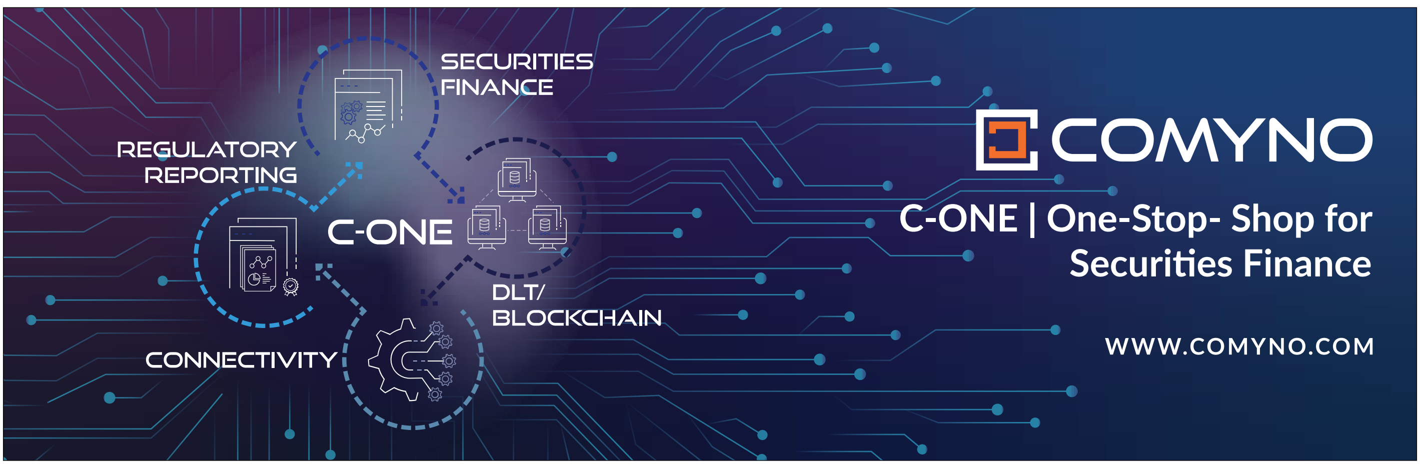
Ultimately, this weighed on the lending market and resulted in an 8 per cent drop in US equity trade counts from October, but this was still up 4 per cent versus November 2023, the firm reports.

A strengthening dollar and fears of future US trade policy dragged down emerging market indices and NGT saw strong demand for Taiwanese (+22 per cent), Singaporean (+15 per cent), and Malaysian (+18 per cent) equities as offshore money exited and created additional short interest.

In the firm's securities finance market review, Norwood notes that fixed income remained in focus as favourable interest rates were offset by currency movements amid concerns over potential renewed inflationary pressures in 2025, with expectations now pointing towards only three more rate cuts next year.

US (+11 per cent), APAC (+6 per cent) and South American (+14 per cent) bonds were the most active in the fixed income space.

"Looking forward, a lot depends on the new US administration, and it will be interesting to see how markets react in the first half of 2025 as more becomes clear on policy," Norwood comments.



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Trade associations call on EU to extend UK CCPs equivalence

European financial associations have called on the European Commission to extend the equivalence status of UK central counterparties (CCPs) as the EU prepares to implement its latest revision of the European Market Infrastructure Regulation (EMIR).

In a joint letter addressed to Commissioner Maria Luis Albuquerque, a group of 12 trade associations emphasised the importance of a non-time-limited equivalence decision for UK CCPs.

The current equivalence arrangement, which ensures that UK CCPs meet EU regulatory standards, is set to expire on 30 June 2025.

This follows the recent publication of Regulation 2024/2987, known as EMIR 3.0, in the Official Journal of the EU, which officially enters in to force on 24 December.

Announced in February, EMIR 3.0 refers to the latest set of revisions to the regulatory framework concerning OTC derivatives, CCPs, and trade repositories in the EU.

By updating EMIR, the EU aims to strengthen financial stability while promoting innovation and competitiveness in its markets.

One of the key changes is the introduction of “active account obligation”, which incentivises EU counterparties to clear a certain number of derivatives at EU-authorised CCPs, with the aim of reducing the reliance on third-country CCPs.

The Alternative Investment Management Association (AIMA) welcomes the intention of EMIR 3.0 to enhance the attractiveness of the EU clearing landscape, but it disagrees with the rationale of forcing market participants to relocate their clearing activity from the UK into the EU.

“The impact of the new rules will be less choice and higher costs for market participants

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in the clearing of derivative contracts," says AIMA, which opposed the active account requirement in its review of the new regulation.

The association believes that extending the equivalence decision for UK-based CCPs will allow industry participants to continue using "tried and tested" clearing services.

If the commission does intend to grant a further time-limited equivalence decision, the joint letter asks for at least five years to "limit uncertainty for EU counterparties".

The associations also warn that a failure to extend equivalence could result in market fragmentation, increased clearing costs, and disruptions for EU participants.

Comyno and SIX partner on new integration of CO:RE

Comyno and SIX have partnered on the integration of the CO:RE platform via C-ONE Connectivity solution.

The milestone is an extension of the two firms' long-standing partnership, and looks to enhance connectivity options for market participants.

Both companies aim to provide "seamless and efficient" access to SIX's CO:RE platform and allow for greater flexibility in managing securities finance and OTC spot market-related activities.

Commenting on the announcement, Frank Becker, chief operating officer and head of sales at Comyno, says: "The integration of CO:RE via C-ONE Connectivity for securities finance and OTC spot market transactions represents another step in enhancing operational efficiency and interoperability for our clients, ensuring they stay ahead in an increasingly complex landscape.

"With this capability, we are well-equipped to respond swiftly to both current and future changes on SIX's side, providing clients with direct, tailored solutions for connecting to SIX's CO:RE platform."

Nerin Demir, head of repo and collateral management at SIX, adds: "The partnership with Comyno has been a reliable and valuable asset for us over the years. We look forward to continuing this fruitful collaboration with Comyno as we expand our services and enhance connectivity in the market."

FAB and Libre Capital sign MoU on blockchain-powered collateralised lending

First Abu Dhabi Bank (FAB) and Libre Capital have signed a memorandum of understanding to explore lending solutions using blockchain technology.

The collaboration aims to transform lending by introducing a fully automated, transparent and efficient ecosystem.

According to FAB, the partnership will see the two entities assess blockchain-powered collateralised lending for tokenised real-world assets, starting with stablecoin lending backed by high-quality tokenised money market funds.

By using tokenised assets as collateral, FAB says it is advancing secure credit facilities with robust compliance to global regulatory standards.

In an online statement, Sameh Al Qubaisi, group head of Global Markets at FAB, says: "By combining FAB's financial expertise with Libre's blockchain infrastructure, the initiative aims to make lending more efficient, transparent, and automated through smart contracts and real-time updates.

"This collaboration bridges traditional finance with blockchain technology, aligning with the UAE's vision of becoming a global financial and tech leader."

OTC Clear to accept China government bonds as collateral for Swap Connect

Offshore investors will be able to use China government bonds and policy bank bonds held through Bond Connect as collateral for Northbound Swap Connect, says OTC Clearing, a clearing subsidiary of Hong Kong Exchanges and Clearing (HKEX).

The CCP's decision will take effect from 13 January 2025, and will allow the new eligible

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collateral to cover initial margin requirements of Northbound Swap Connect.

The exchange group believes this will provide greater flexibility to international investors and enhance their capital efficiency.

"It will also help vitalise international investors' bond holdings in the China Interbank Bond Market, promoting the internationalisation of the RMB," HKEX says.

Swap Connect, which links Hong Kong and China interbank interest rate swap markets, has seen "steady growth" in trading volume since its launch in May 2023.

The average daily turnover of Swap Connect totalled 18.2 billion renminbi (US$2.4 billion) in November 2024, up from RMB3 billion in May 2023.

Societe Generale completes first repo transaction on public blockchain

Societe Generale has completed a collateralised market transaction, fully executed on a blockchain, with the Banque de France, marking its first repo transaction in digital securities with a Eurosystem's central bank.

Through its subsidiary Forge, Societe Generale deposited as collateral, bonds issued in 2020 on the public Ethereum blockchain in exchange for Central Bank Digital Currency (CBDC) issued by the Banque de France on its DL3S blockchain.

"This transaction demonstrates the technical feasibility of interbank refinancing operations directly on a blockchain," says Societe Generale. "It illustrates the potential of CBDC to improve the liquidity of digital financial securities."

HQLA^X collaborates on collateral mobility initiative

HQLA^X has announced the conclusion of a feasibility initiative to address pain points in triparty collateral mobility.

The initiative saw the firm design a new operating model which uses its platform to transfer securities collateral to (or between) multiple triparty agents, without triggering cross-custodian settlements.

"The industry has been trying to solve for triparty interoperability for over 20 years, and we are very excited that our feasibility study confirmed our platform as a scalable industry wide solution for collateral mobility across triparty agents and custodians," says Guido Stroemer, HQLA^X CEO. "The solution is here, now it's up to the industry to implement it."

HQLA^X says the achievement marks a significant step forward in settlement speed and efficiency, and so banks will be able to take advantage of longer intraday settlement windows, and the ability to instruct transfers directly between triparty agents.

It was concluded with the help of a number of market participants banks (including HSBC, UBS, Standard Chartered), triparty agents (including J.P. Morgan, Clearstream), and service providers (including Transcend, Pirum).

These groups all joined HQLA^X and Deutsche Börse Group in formulating the target operating model.

According to HQLA^X, adopting this model will increase the speed and precision of collateral management activities, while reducing operating costs and risks for participants.

This new model allows banks to fulfil collateral obligations in triparty without needing to deliver securities out of their home custodian's accounts, the firm adds.

The group created a "legally secure and deliverable design" and will now validate the business case in more detail with the intention to mobilise resources in 2025.

Commenting on the news, Bimal Kadikar, Transcend CEO, adds: "Clients need the ability to effectively deploy assets across venues to increase liquidity value and lower costs. The technologies are now available to meet this challenge and industry providers have the opportunity to adapt and meet these client demands."

Todd Crowther, head of collateral services at Pirum, comments: "Pirum is delighted to be involved in the HQLA^X working group, which reinforces our commitment to supporting clients with connectivity to the wider ecosystem of current and future technology solutions.

"This collaboration is a key pillar of our CollateralConnect vision of utilising digital platforms to drive further efficiencies in collateral management."

Marton Szigeti, head of Collateral, Lending and Liquidity Solutions at Clearstream, explains: "Collateral mobility is a prerequisite to efficient global capital markets.

"By leveraging HQLA^X's DLT platform, clients benefit from a seamless and efficient triparty solution across borders. This collaboration marks a significant step forward in Clearstream's and Deutsche Börse Group's commitment to providing trusted and efficient solutions for the markets."

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Garnering incremental income

SWIB's Mike Stamm and Tim Wirkus sit down with Carmella Haswell to discuss the functioning of its securities lending programme, its work to further collateral optimisation, and how regulatory shifts are influencing the role of pension funds

As a shift in the regulatory landscape transpires, it has left an opportunity for pension funds to take on an even greater role in long securities lending. This stems from the introduction of Basel III Endgame and the potential capital relief for borrowers.

For Tim Wirkus, senior analyst on the Financing and Collateral Management team at the State of Wisconsin Investment Board (SWIB), there is "untapped value" in borrowers recognising a potentially lower risk weighting for pension funds.

He highlights: "Historically, we've all been lumped together as lenders in risk weighting, because there hasn't been the need to focus on differentiating lenders until the new Basel III Endgame rules were coming down the pipe."

Wirkus believes pension funds are "coming around" and better understanding that this is not necessarily an adversarial relationship between lenders and borrowers, but it certainly is mutually beneficial. "As long as you have your collateral schedules buttoned up, this really can be a win-win for both sides," he adds.

Evolving with the times

The State of Wisconsin Investment Board, otherwise known as SWIB, is an independent state agency responsible for managing the assets of the Wisconsin Retirement System (WRS), State Investment Fund (SIF), and several other state trust funds.

"We're a big pool of stable assets. Asset owners like us make up a large borrow stock within the industry," notes Mike Stamm, portfolio manager of the Financing and Collateral Management team at SWIB.

As of 31 December 2023, SWIB managed more than US$155 billion of total assets, approximately 85 per cent representing WRS assets. SWIB's management of the WRS trust funds aims to provide a fully funded public pension for over 677,000 current and former employees of state agencies, the university system, and school districts.

Contributing to the functioning of SWIB is its securities lending programme, a tool which has been running for quite some time, and has been agented through its custodian, BNY, as well as third-party lending agent, eSecLending.

"Before joining SWIB, [Tim and I] were both hedge fund guys for most of our career. It's been interesting for us to move from that net borrower position at a hedge fund to SWIB. The existential component that is managed at a hedge fund is access to leverage and the cost of leverage, whereas at SWIB, it's a much more interesting puzzle," says Stamm.

"Not only do you have the leverage that we need to fund, but we also have the lending side."

Speaking to Securities Finance Times on the programme and what it has to offer for clients, Stamm says: "It's an outsourced programme, but we evolve with the times and try to stay competitive in the industry by being creative and flexible."

The agency's broad collateral schedule of what it accepts in its securities lending programme allows borrowers to post cash or Treasuries, as well as equities. This aims to provide a "good incremental utilisation" which helps to generate more income through the programme, he adds.

Deeming its use of cash collateral as "innovative", Stamm pinpoints that instead of simply using cash collateral to reinvest, to earn a spread to pay the borrower, SWIB uses that collateral to fund its internal policy and overlay leverage.

> "Trading with SWIB as a pension fund, we have seen some banks be willing to treat us as a less balance sheet intensive collateral provider."

"We could either reinvest it in classic securities lending arrangements or securities lending reinvest guidelines, or we could just take it ourselves and pay that pool for the use of the cash to pay back the borrower," he explains. "By doing that, we give ourselves a really attractive source of liquidity to use to fund ourselves."

Reinvestment can present a certain level of risk, and is "generally historically where securities lending gets into trouble", as Stamm puts it. However, Stamm is confident that the agency largely mitigates that risk and allows SWIB not to have to lever much via other means.

Furthering the conversation, Wirkus says: "Taking the cash collateral onto our own balance sheet to use as leverage, we certainly still have many other relationships to source leverage from, to the extent that there would be some type of disruption in the securities lending market.

"It's great that we have that cheap source, but there's also a lot of redundancy in the leverage sourcing programme that we could reach to make sure that we can continue to keep that leverage on if necessary."

The cash used as leverage is additive to SWIB's leverage sourcing, Stamm adds, which also uses repo and synthetic exposures such as total return swaps and futures.

Ahead of the curve

Regulatory initiatives cast a wide net of influence across the securities lending landscape, but for SWIB specifically, Basel III Endgame and the US Treasury clearing mandate have been top of mind.

"The Fixed Income Clearing Corporation is a key way of 'repo-ing' our Treasuries that we utilised as we've disencumbered those Treasuries via collateral optimisation."

"We have been thinking about Basel III Endgame and working with the borrowers to advocate that we can get the best possible treatment there. Trading with SWIB as a pension fund, we have seen some banks be willing to treat us as a less balance sheet intensive collateral provider. And so we have been able to garner more business because of that," Wirkus comments.

Basel III is a set of measures developed by the Basel Committee for Banking Supervision (BCBS) in the years following the global financial crisis of 2007-09. The measures, rolled out over several years, aim to strengthen the regulation, supervision, and risk management of banks. The final set of rules has been dubbed the 'Basel III Endgame' — which introduces extensive changes, especially in the calculation of risk-weighted assets (RWA).

It has been a year of conversations with borrowers, namely broker-dealers, to understand what their regulatory needs are and how SWIB can fit within them, and appear attractive.

Stamm suggests: "Those conversations have probably led to some specific trades or structures that have been beneficial for both them and us. In a year that had been defined by low utilisation, or lack of any specialness in the market, that has been the way that we've tried to add incremental income."

In terms of the US Securities and Exchange Commission's (SEC's) Treasury clearing mandate, the pension fund may already be ahead of the curve in preparation.

The Treasury Clearing Rules are designed to facilitate the implementation of central clearing of US Treasuries, including by requiring covered clearing agencies (CCAs) to adopt policies and procedures requiring their direct participants, or members, to submit for clearing eligible secondary market transactions.

On 13 December 2023, the SEC adopted rule changes that will require direct participants of CCAs to clear repo and reverse repo, as well as certain cash market transactions involving US Treasuries, subject to enumerated exclusions. The clearing of repo transactions will take effect from 30 June 2026.

Commenting on the impact of the regulation, Stamm says: "The Fixed Income Clearing Corporation is a key way of 'repo-ing' our Treasuries that we utilised as we've disencumbered those Treasuries via collateral optimisation, we've then taken them to FICC to repo them for cash.

"That's been a way to get those Treasuries moving for us. We see it as a good future proof of our repo activities, as Treasury clearing is likely coming in 2026, so we're already clearing a tonne of our Treasuries."

While the regulation seems to provide a positive outcome for SWIB's repo activities, Wirkus holds reservations over one particular hurdle. He believes if the FICC can clear more than overnight repo trades, it would be a "great win" for everyone.

He explains: "People appreciate the counterparty risk upgrade of the clearing house, but term repo is the last big hurdle that I still have reservations about. If the market can't get term repo trades done in a clearing house, then I am worried, but to the extent that we can solve that, then it seems like this has been very helpful in providing significant pipes for us to get a lot of business done."

The numbers quickly get into the billions at SWIB, according to Stamm, who values "those big stable pipes to liquidity", with the FICC being one of them. "It's like Tim said, there are just some details to get ironed out, as far as providing a term market."

"We'd like some way to manage our leverage sourcing term structure to add longer term money, so we know we are funded tomorrow through to 30, 60 or 90 days," says Stamm. "Repo through FICC would be a good place to get that, but so far the term market hasn't developed."

Be your own best borrower

Collateral optimisation is a means for further efficiency, it can help clients to better meet funding requirements and collateral delivery considerations, and can come in a number of different forms. For Stamm and Wirkus, a core goal of their work at the Wisconsin pension fund is to try to identify efficient ways to use its balance sheet to SWIB's benefit.

"We try to identify TIPS and Treasuries that we can use as a highly valuable source of collateral, either for leverage means via repo, or for collateral needs that must be met with Treasuries and make sure that we don't have any of that collateral working for us in a less valuable form than what it could be used for," Stamm highlights.

For instance, Stamm does not want to use Treasuries for "bog standard collateral posting" when he could instead use equities. This has been a theme over the past year, to try to get back those Treasuries so the firm can use them for its own use, and get them out of collateral relationships, so that SWIB can use them for repo.

Stamm continues: "That's been a huge transformational shift in how we collateralise various obligations to try to use our equities as much as possible to free up our Treasuries for our own use."

The ability to self borrow is core to SWIB's success in maintaining an attractive, efficient balance sheet. SWIB will self borrow its equities, short it, and therefore pay itself in transfer pricing costs — not needing to collateralise through a third-party lender and pay the third-party lender for securities lending fees. Wirkus says the team is able to use collateral to be more efficient.

Stamm believes this is a huge benefit, as firms do not need to collateralise if they borrow internally. He indicates that "we're our own best borrowers". He rounded off the conversation by stating: "A way to get incremental income is through being a mindful securities lender, so that we can harvest the balance sheet that we're holding."

Looking ahead

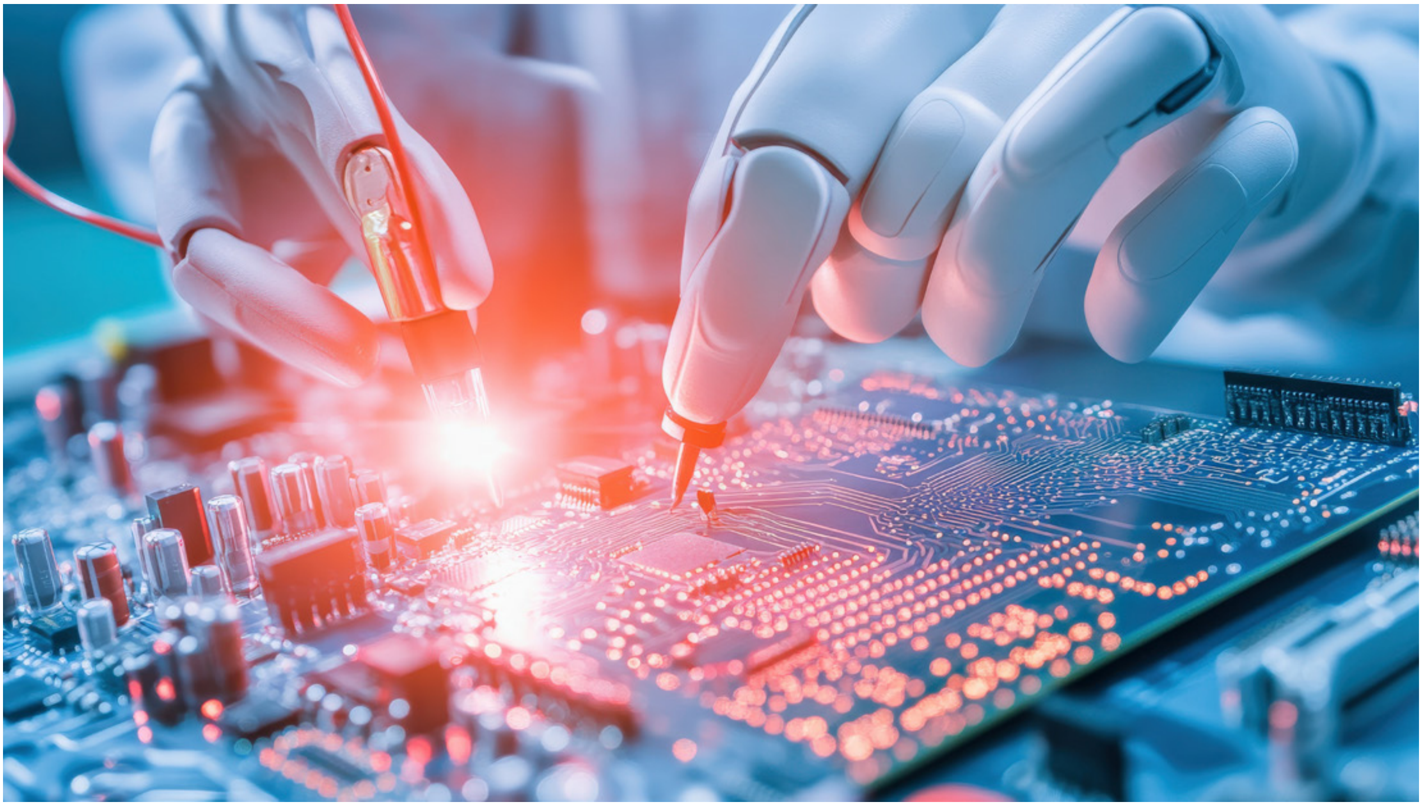
As the market embraces a new financial year, SWIB's priorities for the year are three-fold: to focus on collateral optimisation, continue to identify complimentary needs of banks and broker-dealers, and consider the unsecured debt markets.

On the theme of collateral optimisation, SWIB is constantly looking for ways to get "other slices of our portfolio", or other types of asset classes that are generally harder to finance, into financing arrangements, confirms Stamm.

"We may not use them, but we're always looking to try to find routes to market with those assets so that we can bolster our liquidity positioning by having more options to go to," he adds. "It's a big theme, diversifying that sourcing through mobilising various asset classes."

Focusing on the needs of banks and broker-dealers, Stamm indicates that SWIB's understanding of their needs has developed through conversations. He questions: "Is it more bespoke, negotiated arrangements that allow them to face SWIB more directly and realise our RWA benefit? Or is there some way that we could use securities lending to help them with their net stable funding arrangements?"

Talking through those types of needs and seeing if SWIB can find a way that works for it operationally and from a counterparty risk perspective, is something the team is always thinking about.



Upgrade to CSDR penalty mechanism under scrutiny

Daniel Tison explores how the proposed changes to the Central Securities Depositories Regulation could improve the EU's settlement efficiency ahead of the shift to T+1

In the complex landscape of securities finance, settlement efficiency is the backbone of stability. Over the past decade, the European Securities and Markets Authority (ESMA) has been on a mission to reduce settlement fails — a challenge that continues to test the resilience of Europe's capital markets.

With the publication of its final report providing technical advice on the penalty mechanism under the Central Securities Depositories Regulation (CSDR), ESMA aims to help the European Commission sharpen its tools to ensure a smoother, more reliable settlement process. However, how effective can penalties be in driving real change?

Framing the challenge

Every failed settlement has a ripple effect. In its report, ESMA explains that beyond the immediate impact of delayed transactions, persistent settlement fails negatively affect the functioning and competitiveness of the capital markets.

This contradicts the objectives of the Savings and Investments Union, which is an EU concept aimed at strengthening the union's financial ecosystem by improving the connection between savers and investors.

CSDR, also known as Regulation No 909/2014, includes a set of disciplinary measures to prevent and address settlement fails, consisting of reporting requirements, cash penalties for participants, and mandatory buy-ins.

The vision is simple — not only should cash penalties deter participants from causing settlement fails, but also incentivise failing parties to rapidly resolve the issue through a daily penalty running from the intended settlement date.

In accordance with the Commission Delegated Regulation 2021/70, central securities depositories (CSDs) across the EU have been operating these cash penalties for nearly three years, which has seen a drop in settlement fails — both in value and volume.

"Since its application in February 2022, the penalty mechanism under the CSDR has improved settlement efficiency in the EU by ensuring that participants failing to deliver securities or cash by the intended settlement date incur a penalty," says ESMA.

Data collected by the authority suggest that the overall decrease in settlement fails is particularly noticeable for bonds, shares, and money market instruments (MMIs), but remains more modest for units in collective investment undertakings (CIUs), sovereign bonds, and exchange traded funds (ETFs).

From consultation to action

ESMA's latest report builds on three months of public consultation, during which industry stakeholders shared their views on the effectiveness of the current penalty mechanism in discouraging settlement fails.

Although most respondents said it was premature to review the penalty mechanism, as it had only entered into force recently, ESMA notes that most of them welcome the introduction of the cash penalty mechanism as an incentive for the industry to enhance settlement efficiency.

The majority of respondents also argued against any substantial changes to the current cash penalties framework, but around a third stated that the current penalty rates are too low, and a recalibration could be considered.

Participants generally agreed that CSDs should use a 40-day threshold beyond which more recent reference data shall be used for the calculation of the related cash penalties to prevent degradation of the system's performance.

Most respondents were also against differentiated rates by transaction type due to the complexity and costs of such a change. As a potential unintended consequence, they highlighted that participants may choose specific transaction types solely based on their penalty implications.

In addition, participants mentioned the discrepancy between the cost of incurring the penalty for failing to deliver a security and the costs of borrowing the same security to resolve the settlement fail.

What is new

Designing a penalty system that strikes the right balance between fairness and effectiveness is no small feat. ESMA's approach aims to reflect this delicate balancing act, ensuring that penalties are proportionate and that market participants have clear guidance on how to avoid them.

> "A low level of settlement fails is essential in light of the ongoing discussions about a potential shortening of the settlement cycle in the EU."

While introducing an overall moderate increase in the penalty rates, the EU's financial market regulator and supervisor proposes to maintain the design of the current penalty mechanism.

On the request of the European Commission, the report also outlines ESMA's advice to improve the application of the current penalty mechanism, including the treatment of historical reference prices for the calculation of late matching fail penalties, as well as alternative methods for calculating cash penalties.

In cases where overnight interest rates are unavailable due to central bank policies, ESMA suggests using other comparable interest rates of the European Central Bank and the relevant central bank to calculate a proxy which a CSD can use to calculate the cash penalties due to lack of cash.

This flexibility, coupled with the regulator's focus on transparency and consistency, is expected to boost market confidence.

Based on its analysis of settlement fails between 2022 and 2023, ESMA found that the penalty rates had indeed been lower than securities lending and borrowing rates for illiquid shares, sovereign bonds, and other financial instruments — particularly ETFs. Therefore, the proposal will ensure that the costs of penalties will remain on average above the costs of borrowing securities to resolve the fail.

ESMA believes that a moderate increase of cash penalties, based on the average securities lending and borrowing rates, could ultimately lead to an improvement in settlement efficiency while avoiding negative consequences.

At the same time, there will be no minimum penalties or special penalties for participants with high settlement fail rates introduced at this stage.

> “Beyond regulatory measures that could be taken, we strongly encourage all market participants to continue their efforts to increase settlement efficiency in the EU.”

In light of the emphasis the consultation respondents put on the implementation and maintenance costs, ESMA suggests avoiding any further structural changes to preserve the proportionality of the cash penalties mechanism, but this could be addressed in the next review.

The bigger picture

Following the recent developments, it becomes apparent that settlement penalties are not just about punishing inefficiencies; they are a crucial part of preparing the market for what is next.

In a final report assessing the transition to T+1 in the EU from October 2024, ESMA stated that a successful migration would require a further amendment of the settlement discipline framework to ensure legal certainty and the necessary improvements in post-trading processes.

“A low level of settlement fails is essential in light of the ongoing discussions about a potential shortening of the settlement cycle in the EU,” says the authority, which proposed the optimal go-live date for a coordinated European shift to T+1 on 11 October 2027.

Although several respondents of the consultation argued that the implementation of T+1 in the EU could mean more settlement fails, ESMA believes that a coordinated transition will help promote settlement efficiency, contributing to market integration and the Savings and Investment Union’s objectives.

However, the authority also acknowledges that a significant increase of penalty rates may divert resources from expected investments and costs of moving to a shorter settlement cycle. The proposal also raises the possibility of a temporary suspension of cash penalties to support the EU’s move to T+1, but this will be further considered.

What is next

The European Commission will consider ESMA’s technical advice when amending the Commission Delegated Regulation 2017/389. Once adopted, the revised penalty mechanism will undergo scrutiny by the European Parliament and the Council of the EU, which can object to a delegated act within three months.

While the European Commission oversees the regulatory framework at a high level, it relies on national competent authorities and CSDs within member states to enforce the rules. This could mean a further delay in implementation.

Looking ahead, ESMA says: “Beyond regulatory measures that could be taken, we strongly encourage all market participants to continue their efforts to increase settlement efficiency in the EU, also in light of a shortening of the settlement cycle.”

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2025 through a crystal ball

As the securities finance industry enters a new year, Daniel Tison gathers predictions from market participants on the trends and challenges ahead

What do you anticipate will have the largest impact on the securities finance industry in 2025?

Efforts to promote transparency, market integrity, and the competitiveness of European capital markets will intensify in 2025, with the implementation of new regulatory frameworks, notably Basel IV, aimed at enhancing capital efficiency and reducing counterparty risk. By introducing stricter capital requirements, Basel IV is expected to accelerate the shift towards central clearing.

At Cboe Clear Europe, we remain dedicated to supporting market participants navigate through this evolving regulatory landscape. In keeping with this commitment, we have recently launched a central clearing service for European securities financing transactions (SFTs) in equities and ETFs, which we believe will resonate with market participants. By transforming the traditionally bilateral SFT process into a centrally cleared model, the new service aims to drive greater operational efficiencies, reduce counterparty risk, and improve transparency in this critical segment of the financial market.

Jan Treuren, Senior Director of Product, Cboe Clear Europe

We still have our work cut out for us in 2025 and beyond. While we have proven the merits of this technology, it is time to put real applications on the ledger using tokenisation. As we move beyond pilots and start putting projects into production, we will need to make sure we are collectively driving towards an end goal — building an efficient digital market infrastructure and standards. Collaboration is the core ingredient that will help us capture the promise that digital assets hold.

The Depository Trust and Clearing Corporation (DTCC) is excited to be part of the charge for industry acceptance and greater adoption of tokenisation solutions. In 2025, we will continue to focus on establishing the digital market infrastructure of the future, showcasing how we can deliver the same efficiencies for digital assets as we do in traditional markets today, while also ensuring smooth market operation, transparency, and liquidity.

Nadine Chakar, Managing Director and Global Head of DTCC Digital Assets, DTCC

This year, US market participants will primarily focus on developments in the US, with two significant changes on the horizon. First, the highly anticipated new US Securities and Exchange Commission (SEC) Treasury clearing mandate is set to be phased in 2025, and for repo clearing the following year. The new rules signal arguably the largest overhaul to the operation and structure of one of the largest and most liquid securities markets. Second, there is mounting uncertainty surrounding the new Trump administration and the resulting deregulatory environment, and what this might mean for the securities finance industry.

The potential monetary policy divergence between the Federal Reserve, the European Central Bank, and the Bank of England, together with a reduction in central banks' balance sheets, has the potential to create ongoing volatility on short-term rates, and the ongoing cheapening of collateral. We will also see further momentum on digital asset initiatives, both in cash and repo markets. Our focus will remain on penetrating the many pockets of the repo market that still rely on voice trading.

Nicola Danese, Co-Head of International Developed Markets, Tradeweb

The securities finance industry is deeply connected to the interactions between geopolitics and monetary policy. This was particularly evident in the transition to T+1 settlement cycles in the US, Canada, and Mexico, which spurred significant demand for flexible financing solutions. Drawing from these experiences, Europe must enhance its financing ecosystem to support the upcoming changes and bolster its capital markets against global uncertainties. Progress towards a Savings and Investments Union is crucial for this.

Strengthening proven operational frameworks and maintaining an open dialogue, such as through Clearstream's annual summit at the end of January, will be vital to navigate these changes effectively. By reinforcing the financing industry's foundations, we can ensure resilience and continued support for global financial markets amid uncertainty.

Marton Szigeti, Head of Collateral, Lending and Liquidity Solutions, Clearstream

Many institutions operate on outdated IT infrastructures, making it difficult to integrate modern AI tools. As firms look to deploy these tools in 2025, they will need to significantly invest in the hardware, software, and middleware that these systems require. Knowing where to deploy AI, or which problem to solve, is another major challenge facing firms.

One key area where we have seen real benefits in helping our clients is improving the accuracy and identifying errors in transaction reporting. AI tools that utilise a vast data landscape and provide AI-driven insights can streamline their workflows, enhance data quality, and receive notifications of errors in real time.

MarketAxess' research highlights that a majority (57 per cent) of transactions we see contain at least one error, underscoring that a lack of assurance of accurate reporting remains a significant issue. As financial regulators increase their scrutiny of data quality, errors in transactional reporting can expose firms to compliance risks and reputational damage. If firms continue to rely on their teams to perform tasks manually, then even the best teams will continue making mistakes.

Jon McTernan, Head of Post-Trade, MarketAxess

This year, innovation may be the only way to manage all the changes affecting the securities finance landscape, including regulatory mandates around the world (for example, T+1 in Europe and US Treasury mandatory clearing in the US), new best practices around settlement velocity, and the adoption of new technologies like tokenisation on the blockchain.

While regulatory changes remain uncertain, the evolving landscape will only continue to be more complex, demanding more from firms in compressed timelines and fundamentally altering workflows and risk management.

With periods of accelerated time-to-market and fast-changing trends, understanding existing tech stacks and investing in technology are going to be increasingly strategically important to firms across the financial services industry. Being an early adopter or beta tester of these technologies positions firms at the forefront of industry change and advancement.

Sophie Marnhier-Foy, Vice President and Head of Client Solutions Strategy, Financial Technology, Nasdaq

This year, two themes reverberating across the securities finance ecosystem in 2024 – diversification and resilience – look set to coalesce into a new operating model. New routes to market, such as new trading venues and CCPs, will become increasingly prevalent. Moreover, the benefits of significantly reduced capital requirements and counterparty risk, coupled with superior operational efficiency and resilience, will drive a globalisation of clearing.

The resulting bifurcation of liquidity will feed into cost for the trading side. In order to access global liquidity and diversify, firms will require connectivity to a plethora of existing, new and incoming counterparts and venues. To deal with this new multifaceted operating model, ‘Get it right, pre-trade’ will become standard. The enterprise benefits from leveraging lifecycle efficiencies will become the expectation.

As a result, ‘true cost of trade’ promises to be the key business driver for 2025. Sourcing and leveraging data from multiple sources, and then applying that intel seamlessly to wherever the liquidity resides, is poised to shift the industry into a higher gear.

Rob Frost, Chief Product Officer, Pirum

Geopolitical developments will continue to be a critical focus for the sector. The outcomes of the US elections have blurred the regulatory landscape for the medium to long term, adding layers of uncertainty. The mandated central clearing for US Treasury transactions introduces significant complexities and costs, yet alternatives like guaranteed repos are poised to emerge.

I expect the UK and Europe to concentrate their efforts on T+1 in the next 18 to 24 months. This might catalyse post-trade investments. Improving settlement efficiency will be a top priority on Europe’s agenda in 2025.

Olivier Grimonpont, Managing Director of Product Management, Market Liquidity, Euroclear

2025 will be a year of continued reporting challenges and subsequent growth of the reg-tech industry, as financial firms turn to technology to stay ahead of regulatory changes. Following the implementation of the European Market Infrastructure Regulation (EMIR) in the EU and the UK in 2024, this year will see a continuation of these reforms, with Canada and Hong Kong scheduled in the next 12 months.

Eyes are also on the US, with the new administration's potential to adopt a new regulatory agenda, and Europe with several consultations regarding the Markets in Financial Instruments Directive (MiFID) and the Securities Financing Transactions Regulation (SFTR).

Leo Labeis, CEO of REGnosys

There is a consensus that public markets will not offer strong returns in 2025. With return of investment (ROI) on public securities likely to remain low for some time, we are seeing both asset and wealth managers pile into alternative assets.

It is well known that private trading can be less transparent. Esoteric securities like collateralised loan obligations (CLOs) and catastrophe bonds are more complex, and because they are not publicly traded, you cannot easily find information about pricing or terms and conditions of the security.

As investors seek transparency around the securities and funds they are investing in, 2025 will see AI used to translate data about private and esoteric securities. When you would otherwise be forced to find the underlying conditions of a security in a PDF report, AI can make unstructured data understandable for wealth and asset managers.

The rise of generative AI has the potential to increase trust in riskier private markets. Traders will spend less time on manual data analysis and instead use AI insights to focus on strategy and decision making.

Jamil Jiva, Global Head of Asset Management at Linedata

In the coming year, we expect to see continued growth in newly emerging markets like those in the Middle East, following a strong year for securities lending in the region. The Middle East has captured the attention of the industry due to the rapid expansion of the securities lending market there, particularly in Saudi Arabia, over the past year. The attention to these markets reflects the enthusiasm we've heard in many different meetings with industry participants in 2024.

I expect we will also see an even greater commitment to automation, which we saw more interest in than ever in 2024. There was and continues to be a notable increase in demand for solutions that help market participants meet accelerated settlement cycles; attain more transparency into market activity with up-to-the-minute data; and to reduce errors, decrease costs and increase efficiency.

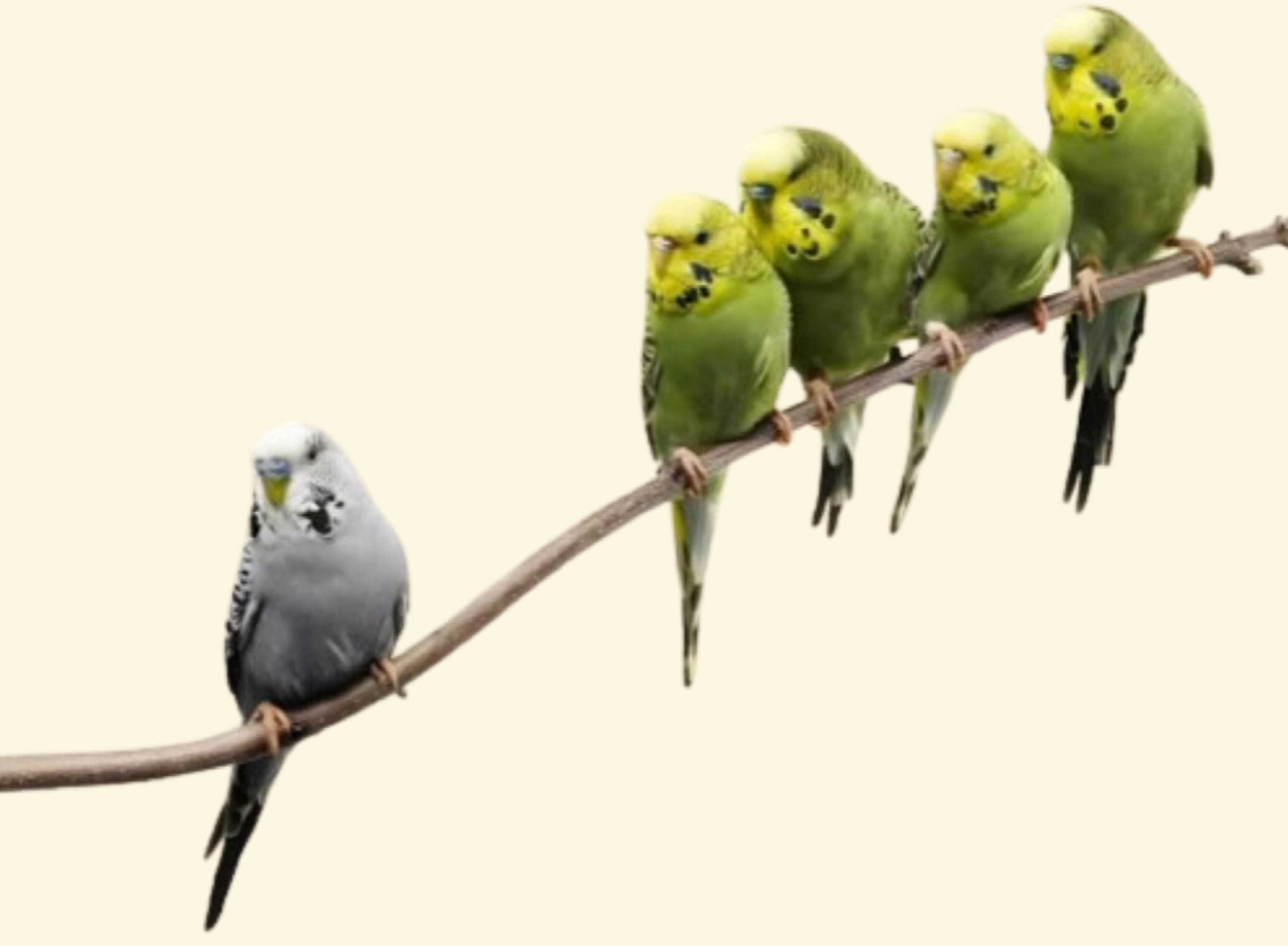
Regulation will also continue to have a powerful impact on securities lending. In particular, we are closely monitoring developments with the US Securities and Exchange Commission's (SEC's) 10c-1a, and are committed to supporting market participants in meeting their reporting requirements.

Dan Dougherty, Global Head of Sales, CRM & Marketing, EquiLend

NAVIGATING THE FUTURE OF

FINANCE

Transforming Capital Markets for New Talent



Natalia Lopez
Securities Finance Risk Management, AVP
State Street

Introduction

The world of work is in a constant state of transformation, which is highly correlated to economic cycles, social dynamics, and advancements in technology. Subsequently, most industries will have experienced some type of pressure to reimagine talent management in the post pandemic era, and the capital markets is not an exception. Despite the highs and lows linked to these challenges, the capital markets have retained its appeal as a career destination for young professionals. According to CNBC (2023), finance is the most desirable industry among Gen Zers (born 1997-2012) with some universities reporting a consistent increase in the number of graduates working in the sector. The report states this is because financial institutions have increased their presence at career fairs offering competitive compensation packages and attractive rewards to prospective graduates.

However, it is important to note that, while a good salary and incentives such as flexible working hours or gym memberships are great benefits, these are universally welcomed by employees irrespective of their age. McKinsey's "Gen what? Debunking age-based myths about workers preferences" (2023) claims that general work preferences are more similar than different across age groups. It is just the "reasons to stay" in the job the area where expectations seem to vary the most between generations. For example, Gen Zers are ranking flexibility, career development, meaningful work, and reliable environment as the most important reasons to stay with their employer. Meanwhile, Gen X (born 1965-1980) and Baby Boomers (born 1946-1964) see compensation as the main reason to stay in the job while career development is considered the least important. In brief, hiring managers are not short of young talent looking to break into the industry but there are clear generational differences when it comes to retention factors. Therefore, this essay will provide recommendations on how financial institutions can manage new talent in a multigenerational workforce for retention purposes while continuing to attract the interest of young professionals as a career destination. The paper will leverage primary and secondary research to achieve this objective.

The framework idea is sourced from a Harvard Business Review (2008) paper that identified the key differences between firms that are successful at managing talent from others that are not so successful in the emerging markets. While this discussion focuses on financial institutions of developed economies, their findings are still relevant, so the main elements of the original framework have been preserved, that is: culture, opportunity, purpose, and brand. This choice of framework is perfect because it allows to link the preferences of Gen Zers (external forces) to manageable business areas (internal forces) providing a clear and concise structure to the discussion, see Figure 1.

In order to consider the fast pace and demanding environment of capital markets, the framework is discussed within the context of a skills based approach. This model promotes internal mobility and hiring focuses on skills rather than experience or qualifications. Since employees are encouraged to develop a versatile skill set, firms that shift to this structure can be more responsive by allocating tasks to the best talent regardless of where they are in the organisation (forbes.com, 2024). Figure 2 brings all the framework elements together to create the foundation of this paper.

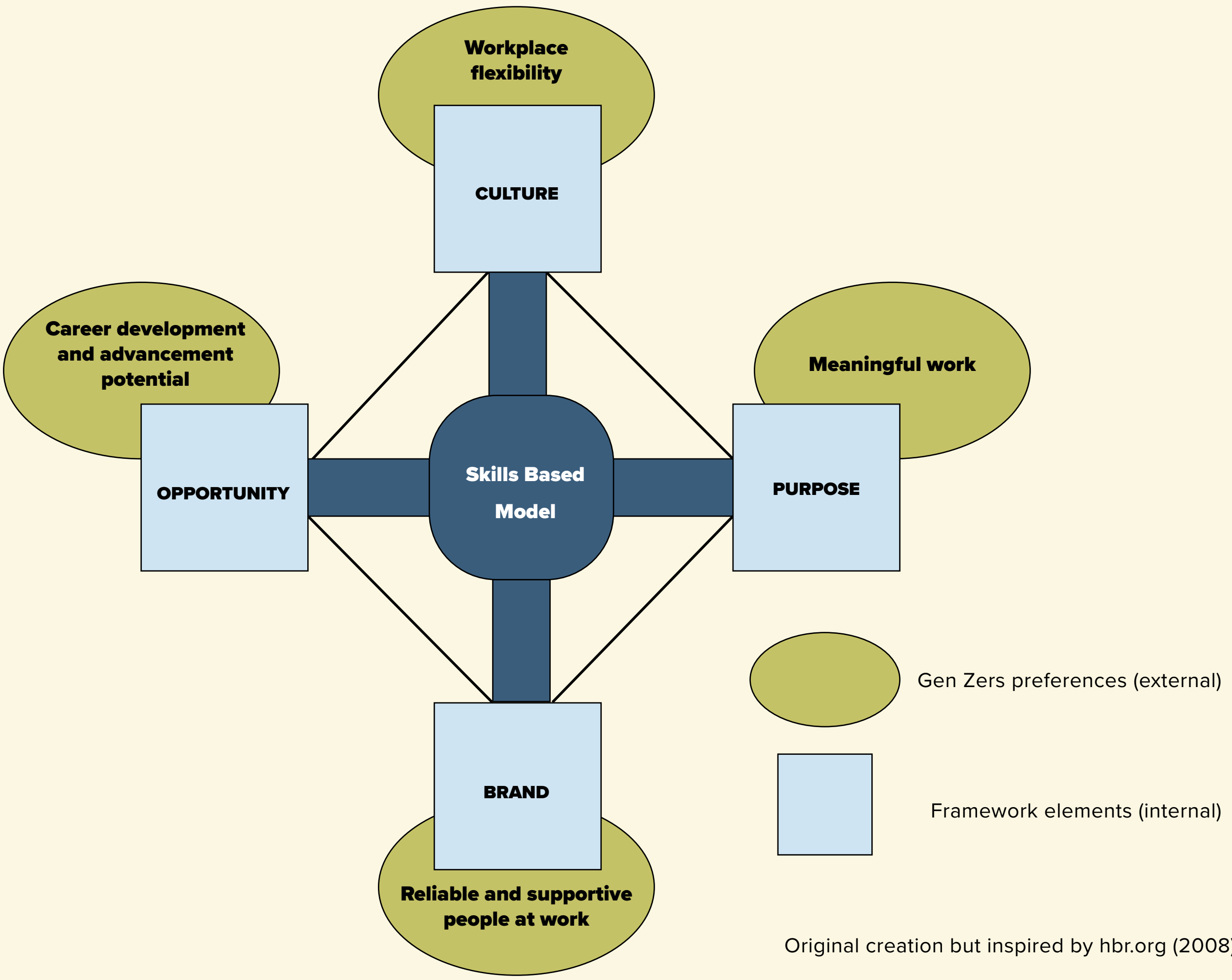
The literature review was complemented with original research consisting of five anonymous interviews. The sample comprised two males and three females between 23 and 26 years of age,

Figure 1 - Gen Z top preferences linked to each framework element

	Top reasons why Gen Z chose to stay in current job*	Framework elements
1st	Workplace flexibility	CULTURE
2nd	Career development and advancement potential	OPPORTUNITY
3rd	Meaningful work	PURPOSE
4th	Reliable and supportive people at work	BRAND

*According to McKinsey (2023)

Figure 2 - A Framework for Managing Talent in a Multigenerational Skills Based Organisation



Original creation but inspired by hbr.org (2008) currently employed by a financial firm, and with an average of two years working experience in the sector. The context of each question was explained to all participants and the objective was to support or challenge the findings from secondary sources, see Figure 3.

The interview methodology followed an informal and conversational interview approach to allow as much as openness as possible. The sample is small as this paper is highly limited by word count, but it provides a great non-academic insight into the concerns and preferences of the younger generation.

A Framework for Managing Talent in a Multigenerational Skills Based Organisation

Culture in the context of an organisation is an abstract concept hard to concisely define. Although Buchanan & Huczynski (2020) p.108 have successfully managed to condense an extensive area of research into one single sentence: "Organisational culture can be thought of as the personality of an organization". Then a financial institution (like an individual) can be assigned to a culture type category based on its unique personality traits. Charles Handy (1993) links structure to culture type through the degree of centralisation and formalisation that exists in a firm. The former refers to how much authority is concentrated within senior positions while the latter relates to the extent to which rules and procedures govern business activities. The finance industry is characterised by high levels of centralisation and formalisation where large hierarchical structures emphasize the importance of rules, role expectations and job descriptions. In other words, the financial markets fall under the culture or personality type known as "role culture." The current system not only fails to align with the values and expectations of the next generation, but also hinders today's most critical business needs such as growth, flexibility, and innovation. A skills based approach to organisational structure requires shifting to a "task culture" where formalisation is eliminated, and workers become unbounded to constantly evolve as business needs change. A way

Figure 3 - Context and interview questions

	Context	Interview Question
CULTURE	Interviewees were explained the skills-based approach to allocating tasks and the main differences between role and task cultures.	Would you like to work for a financial firm with a task culture?
OPPORTUNITY	Hiring and providing internal mobility opportunities based solely on skills and passion/removing academic requirements from job descriptions.	Would you support this approach?
PURPOSE	Explained to interviewees the difference between intrinsic and extrinsic motivation.	What makes you feel intrinsically motivated?
BRAND	Research says having a competent boss is a branding quality often overlooked and the largest positive influence on a worker's level of job satisfaction.	Would a technical skills gap between you and your supervisor be an issue for you?

to achieve this is by fractionalising work or breaking it down into projects and tasks so that employees with the relevant skills and capabilities can flow to them. Employees would continue to perform their core job functions, but creating an internal marketplace where different projects can be advertised would also allow them to work anywhere in the organisation (Cantrell, 2023). This new model could potentially relax rules around when, where and how the work is done. Thus, a task culture approach to organisational structure could encourage more productivity by increasing workplace flexibility, which is the top ranked reason among Gen Zers to stay in the job. All five interview participants received the idea with curiosity emphasizing flexibility and variety of work as the most appealing qualities of this model. However, task fractionalisation is a relatively new concept. This raised some concerns among participants on how it would work in practice, but potential solutions were also discussed. Fundamentally, this method breaks work down into smaller projects that can be assigned to any employee based on their interests and capabilities. One interviewee pointed out that information would then freely flow across the organisation and compromise confidential data. Financial firms that transition to this structure should therefore issue written guidelines on how to exchange information and establish Chinese Walls to avoid conflict of interests between departments. Another interviewee believed workers could be drawn to projects that would allow them to employ skills they already have as opposed to develop new ones. So, to tackle this issue, organisations could reward and encourage employees to take projects that are outside of their comfort zone. Despite these concerns, all five participants said they would move to a financial firm with a task culture as long as the potential weaknesses of this model are addressed and resolved.

Opportunity creation is at the heart of a skills based approach to hiring and retaining young talent. In the current role culture that characterises the capital markets, hiring managers will normally default to screening candidates based on prior job experience and qualifications. This approach is contrary to the preferences of most workers irrespective of age as 66% said they would be more attracted to and remain at a firm that makes decisions based on their potential rather than on their experience and qualifications (Deloitte Insights, 2022). This finding was supported by all the interview participants with three claiming that academic learning has not contributed to their job performance, and having a degree had been a “tick box” exercise that just helped them make it to the interview stage; “I went to a Russell Group university, and I believe having such a good name on my CV helped me to get into the sector. I am not sure if I would have received an offer if I went to a different university or if I did not go to university at all; however, I would have been the same person.” said the first interviewee. So, in addition to fractionalising work and shifting to a task culture structure, this model would also eliminate requirements such as university degrees from job descriptions. As a result, financial firms adopting this approach could benefit from a larger pool of candidates while providing opportunities to young talent from diverse backgrounds. Data shows that 26.6% of students from underprivileged households went to university between 2019 and 2020 compared to the 45.7% of those coming from high income households in England (standard.co.uk, 2021). One interviewee emphasized the importance of socio- economically diverse teams as individuals belonging to high social classes tend to share different interests and hobbies to those from poorer backgrounds. This could hinder the career development and networking opportunities of employees without connections and resources. The goal is to hire and keep young talent regardless of their previous experience and academic qualifications but just based on their skills and passion. Then nurture that talent by providing internal mobility opportunities and training that will help them to advance in their journey. Since, career development and advancement potential were ranked by Gen Zers as the second most important factors to stay with their current employer, this approach could reduce the number of departures to other sectors. This strategy was not just the most supported by all the interview participants, but also, this is the topic they seemed to talk about with more passion.

Purpose is normally described in a mission statement that is unique to each firm and establishes the culture, values and goals that go beyond making profit. The psychologist Viktor Frankl (1946) described the pursuit of meaning as the primary motivational force in humans, thus it is not surprising to find meaningful work in the top four reasons to stay in the job across all generations. Financial institutions are increasingly recognising the importance of having a clearly defined business purpose that serves the greater good. This is particularly important for employees in the younger age groups including millennials as they will have grown up reading about corporate scandals in the news (Davis-Blake, 2014). Therefore, the goal of promoting an ethical and purposeful business model is twofold: to help rectify the errors from the past; and to motivate employees to perform at their best. Buchanan & Huczynski (2020) p.295, make a differentiation between “intrinsic rewards” and “extrinsic rewards”. An intrinsic reward is a feeling that arises from within such as self-esteem or satisfaction, while extrinsic rewards like salary and promotions have an external source. Data from McKinsey’s research shows how individuals tend to be more extrinsically motivated when it comes to take a new job as compensation goes up the ranks for all age groups. This is in line with the CNBC report mentioned in the introductory section which details how Gen Zers are attracted to the generous compensation packages offered by financial firms. However, extrinsic motivation is not sustainable, and while offering competitive salaries can help to maintain an interest in the financial sector, luring prospective employees with money does not necessarily result in an engaged and productive workforce. One interviewee mentioned how their organisation makes an effort to ensure employees understand their purpose, but that is not sufficient, adding: “There needs to be a connection between your own personal values and your purpose”. Task fractionalisation could help employees to choose tasks that align with their values and give them purpose as a result. When asked about the factors that would keep them intrinsically motivated at work, none of the interview participants mentioned large scale initiatives such as community engagement, ESG or sustainability. While all these factors are important, interviewees seemed to be more driven by the positive impact they can make upon their team; “I feel motivated when I am challenged, and my colleagues rely on me to achieve a shared goal” is a representative example of the responses that were given. It could be because employees can see the immediate results of their work, but they do not have so much transparency to the impact they have upon communities and the lives of other people. But it is also important to ensure that job candidates have a genuine interest to work in finance and are not driven just by the promise of a good salary.

Branding in the context of this essay refers to the firm’s strategy to create a positive image in the job market to attract talent. The Harvard Business Review paper in which the framework is based explains how young professionals are particularly attuned to brand. This is because a desirable affiliation to a banking institution may lead to personal advancement, especially when the brand is associated with inspirational leadership. Reliable and supportive work colleagues (including managers) is the top fourth reason Gen Zers chose to stay in their current role, as one interviewee pointed out: “… at the entry level it is very important to leverage from the supervisor’s expertise and knowledge in the business.” However, research shows new joiners to the banking industry outshine long-tenured employees in areas such as digital skills readiness (synergyconsulting.ae, 2018). The technical expertise of managers is a branding quality often overlooked, and this can result in junior talent feeling uninspired. Artz B., et al (2016) conducted a study which aimed to identify the factors that contribute to employee happiness at the workplace. They used several variables to measure the competence of managers including whether the supervisor could do the employee’s job, and the supervisor’s level of technical competence as assessed by workers. The research found that having a highly competent boss is the largest positive influence on employees’ level of job satisfaction. All the interviewees agreed with the research findings although being more digitally savvy than their supervisors on occasions also made them feel important. Nevertheless, the feelings of being indispensable did not outweigh the benefits of having a highly competent boss, specially at the junior level when they might need more guidance and learning is a priority. One interview participant also highlighted that managers not understanding the complexity of the tasks they assign can lead them to underestimate the contributions of employees. The lack of recognition, and potentially less targeted feedback, could have a negative impact upon the employee’s level of job satisfaction. The capital markets is a well-established mature industry in which long- tenured employees might lack the expertise needed to succeeded in a digital era. Managers experiencing this issue could take advantage of the opportunities a task culture brings to reskill and upskill. Taking ownership of tasks that require the skills they are looking to develop could help them to bridge the gap and lead by example. Another interviewee suggested financial institutions should take a “start-up approach” so centralisation, which is the concentration of authority in senior positions, is eliminated and supervisors promote collaborative thinking.

Recommendations

This essay has addressed the theme of how the capital markets can better align with the values and expectations of Gen Zers while considering the fast pace and demanding environment that characterises the industry. Findings showed the next generation is interested in developing a career in the financial services with universities reporting an increase in the number of graduates entering the sector. However, there seems to be generational differences relating to the values and preferences of workers when it comes to stay with their current employer.

Gen Zers ranked flexibility, career development, meaningful work, and reliable environment as the most important reasons to stay with their employer. Meanwhile, Gen X and Baby Boomers see compensation as the main incentive to stay while career development is considered the least important. Given these findings, and the objective of this paper, the discussion focused on the main four preferences of Gen Zers. Taking inspiration from a framework developed by Havard researchers these were match to four manageable business areas: culture, opportunity, purpose, and brand. A new framework to manage talent in a multigenerational organisation was created by bringing all these elements together. The model was discussed within a skills-based approach to organisational structure as studies suggest this method can help firms to become more responsive and agile. The methodology consisted of primary research (interviews) and secondary research (mostly management consulting readings). The combination of sources was pivotal to create innovative strategies and propose with confidence the culture shifts needed to redefine the capital markets.

Culture

The high levels of centralisation and formalisation that govern most financial firms will hinder opportunities for adaption in a fast moving world. The current model is not fit for purpose, so talent managers need to change their approach to an organisational structure that will increase workplace flexibility. In a task culture, jobs are fractionalised into projects or tasks that are matched to employees based on their interests and areas of expertise. This model can deliver flexibility by eliminating formalisation and relaxing the rules around when, where and how the work is done. However, this is a new concept, and the research identified areas of concern that need to be addressed. Data protection and the potential for the polarisation of skills between employees are some examples. Therefore, financial firms looking to implement this model should do it gradually, testing and following closely as the workforce evolves.

Opportunity

In addition to fractionalising work and shifting to a task culture structure, this model also proposes the elimination of requirements such as degrees or previous experience from job descriptions. Financial firms adopting this approach will benefit from a larger pool of candidates while providing opportunities to young talent from a wider range of backgrounds. A socio-economically diverse team could bring varied perspectives and interests to the conversation creating a more inclusive environment. In order for this model to work, hiring managers should ensure new joiners are trained and guided appropriately, for example, by matching them with a mentor. Career development and advancement potential are key factors to Gen Zers. Taking measures to ensure these expectations are met will reduce the volumes of young talent departing to other sectors.

Purpose

Managers need to differentiate between intrinsic and extrinsic rewards and focus on the former to have a motivated workforce in the long term. It is equally important to understand that solely having a purpose is not sufficient and there needs to be a personal connection between employees and that goal. Task fractionalisation could also help in this area as employees get to choose tasks that align with their values and give them purpose as a result. More research in this area is needed as the sample is small, but company initiatives such as community engagement or ESG did not increase the motivation of employees. Instead, they were more driven by healthy team dynamics where a goal is shared, and employees feel challenged. The recommendation in this area is to implement strong interview and hiring processes to identify candidates that are intrinsically motivated to develop a career in banking and finance. In addition, senior management could increase visibility and educate the workforce on how the capital markets influence the economy and lives of other people.

Brand

Having an affiliation to a banking institution that is associated to inspirational leadership may lead to personal advancement. This is a branding quality often overlooked and that could put at risk the interest of young talent. Specially at the entry level, it is important to leverage from the manager's expertise. But research shows new joiners to the banking industry outshine more experienced employees in digital skills, this could result in junior talent feeling uninspired. In the same way formalisation has to be eliminated to facilitate the shift to a task culture, the elimination of centralisation is required to develop a strong employer branding strategy. In a start-up style, managers need to embark in the digital journey together with Gen Zers, bridge the digital skills gap, and lead by example. ■

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A happy accident

Quadri Adisa, analyst in the securities lending team at HSBC Securities Services, speaks with Daniel Tison about his unexpected journey into securities finance and the power of being acknowledged

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

My journey into the securities finance industry was partly a happy accident. I started my career in an unrelated field in the financial sector in Nigeria, as I have always had an affinity for finance, but I made the decision to pivot after my master's degree programme.

I was not going to start my finance journey in securities lending specifically because I did not have exposure to this part of the industry — which is a misconception you may find if you ask many young people looking to work in finance. Since I started my current role, I have attended career fairs hosted for undergraduates and recent graduates where I had to explain what securities lending is because a lot of them have never heard of it — which is not something my peers in investment banking, or fixed income sales and trading, and the like, tend to have to do about their jobs.

When I came across this role at HSBC, I did my research. I went on LinkedIn to see what the career path for current and past participants of the industry looks like and I saw the role is quite specialised, but that I had the transferrable skills, and it would be a great opportunity for me to learn and add value to the organisation.

The key factors that have helped me to navigate my path are my tendency to be tenacious when I need to achieve a goal, leveraging the willing nature of both my professional network and friends to serve as a sounding board when I need guidance, and being ready to learn and take on new challenges.

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

Every day, I go to work knowing I am going to learn something new or see the practical implementation of financial instruments I have heard about in the past. It is very easy to read up on definitions, but the true challenge lies in understanding the nuances of the financial instruments and regulatory landscape, and in order to bridge this knowledge gap, I seek further understanding from more experienced team members.

A key experience for me is being acknowledged for completing tasks, which I know must be quite straightforward for more experienced team members. This pushes me to want to contribute more and meet expectations because it feels good to see that one is contributing value and being recognised for it — no matter how significant it may be. Seeing the value of the projects you have worked on in real-time helps develop a sense of realisation that you are continuously making an impact in the organisation you work in and developing your skills.

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

Since I joined HSBC, one of the things I have come to value the most is how well it invests in its workforce. Prior to this role, I went through a skills boot camp facilitated by experienced training professionals, which was very helpful in developing my fundamental understanding of working in the financial services industry. This training went beyond learning how to interpret market situations or carry out technical analysis, as there were personal development sessions. While quantitative skills are important, strong interpersonal skills are equally as crucial.

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

One of the most common misconceptions is that you cannot have a work-life balance if you work in banking. Personally, I have been able to achieve this thanks to the business line I am currently in and the organisation, but I believe that it is somewhat easy to plan my day effectively and spend my weekends doing some of the things I enjoy.

Another common misconception is young people thinking they cannot work in the industry because of their academic background. A lot of the roles through the graduate pipeline at HSBC do not necessarily require you to have finance qualifications or a degree in a related field. My undergraduate and postgraduate degrees are unrelated to finance.

That is why I make an effort to attend events curated for graduates or undergraduates to share my background with them and let them see that you do not need a finance degree to do what I am doing. Your desire to learn and bring in fresh ideas is part of what the bank seeks.

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

If you asked me that question five years ago, I would have said "being a full stack developer" or something tech-related, but here I am — on an entirely different career path. Right now, I am just enjoying this learning phase and building new skill sets that I know are going to be useful in whatever I find myself doing in five years' time.

But to be more specific, I have about a year and a half to complete my rotation in the Securities Services business at HSBC and then off into a permanent position. I believe the next three years or so after that will involve being an individual contributor to the organisation, driving growth, building relationships, and hopefully taking on leadership and mentoring roles.

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

As a young professional in the financial industry, developing confidence in your own abilities and potential may seem difficult, but keep trusting your inherent potential and do not compromise your values or principles. In short, always take a bet on yourself, but without sacrificing integrity.

During the short time I have been in this field, one little insight that I have gained from other senior colleagues, which is very applicable across all other fields, is that it is okay not to be the best at something, even if you sometimes strive to be, but being reliable, in terms of delivering outputs, can get you even farther.

Quadri Adisa

Born and raised in Lagos, Quadri Adisa holds an undergraduate degree in agricultural economics alongside a qualification in associateship from the Chartered Institute of Bankers in Nigeria. His career journey has taken him through roles in robotics and process automation at financial institutions like Access Bank Holdings and Standard Bank Group.

Seeking to expand his knowledge and skills, and to explore new opportunities, Adisa moved to the UK to pursue a master's degree in the Internet of Things with data analytics. Upon completion of his degree, he joined HSBC as an analyst in the securities lending team.

Outside of work, Adisa is a passionate individual with diverse interests, including gym, tennis, football, and puzzles. He also enjoys experimenting with new recipes and listening to music, especially at live concerts. Lately, he has been redeveloping his passion for arts, looking to grow his illustration and animation skills.

SSGA adds Li

State Street Global Advisors (SSGA) has onboarded Louisa Li as a managing director and securities lending global business development manager.

In this position, Li will lead business development efforts and support SSGA sales teams of the securities lending product to their clients.

Li brings nearly three decades of experience in financial services to the role.

She joins from Citi where she spent more than two decades, transforming from a management associate for custody and securities lending to a director of agency securities lending.

Lynch leaves EquiLend

Paul Lynch has left his position as global head of products at EquiLend, the firm has confirmed.

He joined the global fintech company in August 2018 as a strategic adviser, responsible for enhancing EquiLend's client engagement model.

Prior to that, he was with eSecLending, serving as global head of trading and short term investment management for a couple of years, as well as chief operating officer for more than four years.

Between 1996 and 2010, he acted as senior managing director at State Street.

EquiLend has recently announced a new CEO, following Brian Lamb's departure in September when the firm was acquired by Welsh, Carson, Anderson & Stowe (WCAS).

TZ Clear hires Denney

TZ Clear, a correspondent clearing firm subsidiary of TradeZero, has appointed Nicolette Denney as its chief financial officer, where she will assist in driving strategic growth.

Based in the US, Denney has over 30 years of experience in the financial industry.

She has taken on roles at clearing houses, as well as retail, institutional and M&A firms, and has helped companies to build and develop their business models.

Previously, Denney held a seven-year term with Futu Clearing — which provides execution, clearing and custody services — where she was most recently CEO.

Prior to this, she spent time at Acorns, an American financial technology firm, where she contributed strategically during the firm's startup phase.

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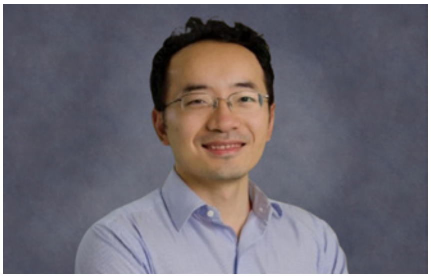
Sabatini for T+1

Industry representatives from the post-trade sector have selected Giovanni Sabatini as independent industry chair, leading their work to facilitate the migration to T+1 in the EU.

The European Securities and Markets Authority (ESMA) said that Sabatini will play a key role as the link between the industry and the public sector working to shorten the settlement cycle.

Sabatini has years of experience working in securities markets — both in the private and public sectors.

He has served as a member of the European Economic and Social Committee and held roles within the International Organization of Securities Commissions (IOSCO), the European Banking Federation, and the European Central Securities Depositories Association (ECSDA).



Zhu departs SEC

Haoxiang Zhu departs the Securities and Exchange Commission (SEC) as director of the Division of Trading and Markets to resume his career in education.

Upon his departure, David Saltiel, a deputy director who also heads the division's Office of Analytics and Research, will serve as acting director.

During his tenure, the SEC undertook several initiatives to modernise the regulation of US securities markets, including the expansion of central clearing for Treasury repurchase and cash transactions, the implementation of T+1, the update of existing regulation for broker-dealers, as well as the adoption of new rules for securities lending, short selling, and security-based swaps.

Besides rulemaking, Zhu also led the division's efforts in the day-to-day oversight of exchanges, alternative trading systems, broker-dealers, the Financial Industry Regulatory Authority (FINRA), clearing agencies, and other market participants.

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

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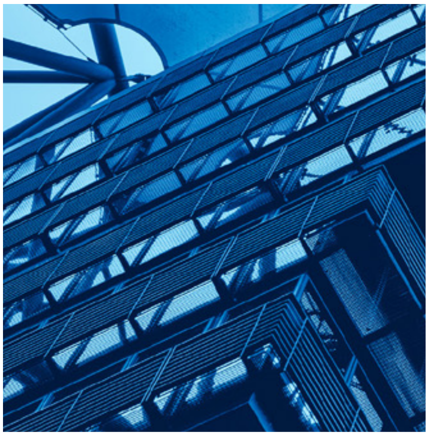

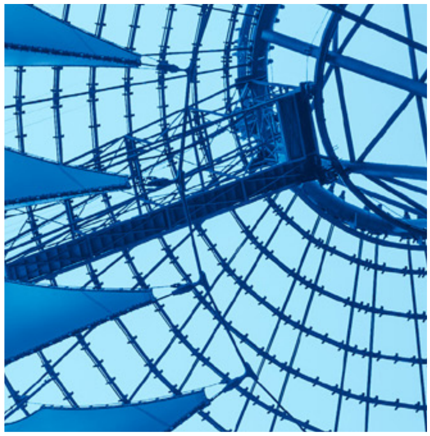

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