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A new clearing framework

Fran Garritt of ISLA Americas discusses the upcoming US Treasury clearing mandate from an agent lender cash desk perspective

SEC extends US Treasury clearing compliance deadlines

The US Securities and Exchange Commission (SEC) has extended the compliance dates and provided temporary exemption for a rule related to the clearing of US Treasury securities.

Rule 17ad-22(e)(18)(iv)(A) and (B) under the Securities Exchange Act will be delayed for 12 months to 31 December 2026 for eligible cash market transactions, and 30 June 2027 for eligible repo market transactions.

Under the rule, a covered clearing agency that provides CCP services for US Treasury securities must establish, implement, maintain, and enforce written policies and procedures designed to require every direct participant to submit all eligible secondary market transactions to which it is a counterparty for clearance and settlement.

The rule also requires a covered clearing agency to identify and monitor its direct participants' submissions of transactions for clearing, including how the covered clearing agency would address a failure to submit transactions.

Additionally, the SEC has temporarily exempted covered clearing agencies from Exchange Act Rule 17ad-22(e)(6)(i), which requires them to separate margin for a direct participant's proprietary US Treasury positions from margin for indirect participants using the direct participant's services.

Under this temporary exemption, a US Treasury securities-covered clearing agency is not required to enforce its written policies and procedures regarding the rule until 30 September 2025, instead of the original 31 March 2025 compliance date.

Mark Uyeda, acting chairman of the SEC, says: "This one-year extension provides additional time to implement and validate operational changes.

"Direct participants will also have more time to implement important risk management changes to comply with US Treasury-covered clearing agency rules. The commission stands ready to engage with market participants on issues associated with implementation."

If a direct participant of a US Treasury-covered clearing agency offers certain access models or segregated margin accounts, the covered clearing agency would be obligated to enforce those rules regarding such models or accounts against the relevant participant, and the direct participant must comply with those rules.

Reeves confirms date for shift to T+1 settlement

The UK's Chancellor of the Exchequer Rachel Reeves has confirmed 11 October as the date for a market shift to a T+1 settlement cycle for securities.

Reeves confirmed the date in a meeting with members of J.P. Morgan, BlackRock, Abrdn, Morgan Stanley, Goldman Sachs, Citi, Fidelity, and Schroders.

She said: "Speeding up the settlement of trades makes our financial markets more efficient and internationally competitive."

Andrew Bailey, Governor of the Bank of England, added: "Shortening the UK securities settlement cycle to T+1 will bring important financial stability benefits from reduced counterparty credit risk in financial markets.

"It is important that firms and settlement infrastructures have robust plans for an orderly transition in October 2027. As part of this effort, the bank looks forward to continuing dialogue with regulators in other markets which are pursuing similar changes."

The government has accepted all recommendations made by the Accelerated Settlement Technical Group.

The Bank of Canada chooses CCMS

The Bank of Canada has elected to use the Canadian Collateral Management Service (CCMS), as developed by TMX Group and Clearstream.

TMX Group says that the CCMS aids the optimisation and collateralisation of securities finance activities throughout the Canadian market, by simplifying the end-to-end domestic collateral management process.

The Bank of Canada joining the CCMS is said to be a significant milestone in strengthening Canada's financial market ecosystem and aligning to global standards.

Toni Gravelle, deputy governor for Bank of Canada, says: "The Bank of Canada is pleased to join the CCMS. The CCMS will enable us to execute our market operations with greater speed and flexibility."

Steve Everett, head of post-trade innovation at TMX Group, adds: "We are delighted that the Bank of Canada is joining the CCMS. This milestone modernises, strengthens and standardises the entire secured funding

ecosystem improving market resilience, risk management and collateral mobility at scale."

Euroclear and Digital Asset launch tokenised collateral mobility initiative

Digital Asset has launched the first phase of the tokenised collateral mobility initiative for the Global Collateral Network (GCN).

This first phase, conducted with a consultancy firm, aims to define how Euroclear's decades of collateral management expertise could be applied to the growing digital and crypto markets using the Canton Network.

Kelly Mathieson, chief business development officer at Digital Asset, comments: "The GCN has the potential to revolutionise collateral management by enabling real-time, compliant, and interoperable asset mobility across both traditional finance and digital markets.

"This is a significant step toward unlocking the full potential of tokenisation across new crypto capital markets."

The Canton Network is a blockchain designed with the configurable privacy, scalability, and interoperability required for systemically important financial markets.

The project's goal is to facilitate a regulated exchange of digital assets and cash as collateral.

Euroclear and Digital Asset are observing a growing market interest in robust on-chain collateral and margin management solutions, with financial institutions seeking efficient ways to trade and mobilise their assets to meet capital obligations across global markets.

In phase one, industry participants will explore how tokenised collateral mobility could enhance efficiency across global markets, as well as how crypto derivatives collateral and margin management services could meet the interest of 24/7 trading and settlement.

Wealthfront picks Sharegain

Wealthfront has selected Sharegain to launch fully paid securities lending for its suite of automated investing products. Through its software, Wealthfront delivers cash management, diversified ETF and bond investing, individual stock investing with no commissions, and low-cost margin loans for both experienced and new investors.

David Fortunato, CEO of Wealthfront, comments: "We're committed to offering solutions that help investors maximise their portfolio potential and build long-term wealth.

"By partnering with Sharegain, we're excited to provide our clients access to a new passive income opportunity."

Reisa Asimovic, CEO of Sharegain US, adds: "This new programme delivers greater value for Wealthfront and its clients, and brings unique supply to the securities lending market."

In response to the growing trend of retail securities lending, Securities Finance Times published an article in Issue 371 focusing on this topic in detail, with insights from retail brokers, fintech firms, and an industry association.

ECB changes collateral rating rules

The European Central Bank (ECB) has changed the rules on the use of credit ratings issued by external credit assessment institutions (ECAIs) to assess the eligibility of private sector assets under the Eurosystem collateral framework.

The second-best rating will apply to private sector assets, such as unsecured bank bonds, covered bank bonds, and assets issued by non-financial corporations.

This decision also applies to the accepted non-euro area public sector, following a review of the rating aggregation rules aimed at making better use of all available credit rating information in the Eurosystem Credit Assessment Framework (ECAF).

According to the ECB, the review took into account the increased number of ECAIs accepted in the ECAF and the fact that the Eurosystem is open to accepting additional rating agencies once they comply with the acceptance criteria.

Under the current rules, where multiple ECAI ratings exist, the Eurosystem selects the first-best rating to assess collateral credit quality, which applies to all assets other than asset-backed securities, for which a second-best rating rule is already followed.

Under the new rules, private sector assets will be assessed based on the second-best rating among the ratings from accepted ECAIs.

For assets with only one rating from an accepted ECAI, where the second-best rule therefore cannot be applied, a one-notch downgrade will be applied to the available rating to determine the rating relevant for collateral purposes.

The ECB also decided that the rules will remain unchanged for assets issued or guaranteed by the euro area public sector, including governments and recognised agencies.

These assets, for which the Eurosystem makes regular use of all available credit quality information and applies enhanced due diligence procedures, will therefore continue to be assessed based on their first-best rating.

The ECB reserves the right to deviate from credit rating agencies' ratings if warranted, in line with its discretion under the monetary policy framework, thereby avoiding mechanistic reliance on these ratings.

The rule change will enter into force no earlier than 18 months from the announcement made on 21 February to allow for implementation in the Eurosystem IT infrastructure.

The ECB will announce the exact date, along with technical details, ahead of the implementation.

AccessFintech integrates with S&P Global Market Intelligence

Synergy, by AccessFintech, has integrated with S&P Global Market Intelligence's Securities processing platform with the aim of enhancing settlement management for clients.

The integration will bring automation and standardise securities processing across the trade and settlement lifecycle.

The firms say that the integration allows clients to transition from managing multiple applications and isolated processes to one unified cloud platform. They will also gain access to an integrated post-trade framework that can predict and resolve settlement failures.

Matt Digby, head of partnerships at AccessFintech, says: "Our clients are actively looking for data interoperability, leveraging technology to improve efficiency, simplify workflows, and increase collaboration across and between organisations.

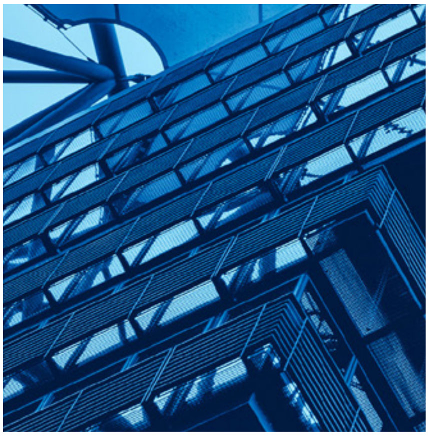
"Through this collaboration, S&P Global Market Intelligence and AccessFintech are providing advances in the post-trade process. Having a data and workflow normalisation and collaboration strategy is critical, particularly as the industry adapts to CSDR regulation and the move to T+1 settlement."

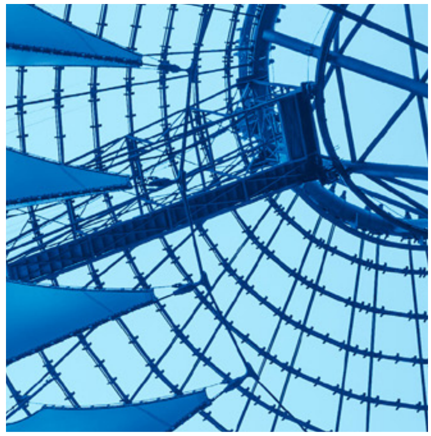
ESMA publishes CSDR Refit technical standards

The European Securities and Markets Authority (ESMA) has published technical standards on different aspects of the Central Securities Depositories Regulation (CSDR) Refit.

The rules mainly affect central securities depositories (CSDs), but they also have indirect implications for market participants like investors, banks, and financial institutions.

The rules cover the information that European CSDs must provide to national competent authorities (NCAs) for review






and evaluation, the criteria for assessing the importance of European CSDs in a host member state, and the information third-country CSDs must notify.

CSDs must report information in a consistent way to local regulators, which means they may need to upgrade their IT systems and data processes.

Foreign CSDs operating in the EU will have to provide more structured data, making it easier for regulators to understand their risks and role in the market.

If a CSD is considered important in another EU country, it gets extra supervision, which could mean faster and safer settlements for cross-border trades.

The technical standards are set out in three separate final reports, considering the input from relevant stakeholders.

Coming into force in February 2023, the CSDR Refit is a revision of the original CSDR adopted by the EU in 2017 to harmonise and strengthen the settlement infrastructure within the region by regulating CSDs and the securities settlement process.

ESMA has submitted the three final reports to the European Commission, which has three months to decide whether to endorse the proposed amendments.

GLMX and Northern Trust join ISLA Americas

The International Securities Lending Association (ISLA) Americas has welcomed GLMX and Northern Trust as new members.

This marks the latest in a number of members joining the association in recent weeks, including Invesco and Vanguard.

GLMX is a global fintech company, providing technology for equities, fixed income, repo, and securities lending.

Standing for Global Liquid Markets, GLMX came out from the fusion of Wall Street Market Expertise and Silicon Valley Technology in 2010.

Founded in 1889, Northern Trust is one of the largest banking institutions in the US, catering to corporations, institutional investors, and individuals.

With their presence in APAC, both companies are also members of the Pan Asian Securities Lending Association (PASLA).

Incorporated in May 2024, ISLA Americas is a non-profit industry association, representing the common interests of securities lending agents, beneficial owners, institutional investors, and other market practitioners in the Americas region.

AuRep picks Nasdaq AxiomSL for regulatory reporting

Nasdaq has signed an agreement with Austrian Reporting Services (AuRep) to provide regulatory reporting technology for the Austrian financial services industry.

Nasdaq estimates that this agreement will see around 90 per cent of Austrian credit institutions move their regulatory reporting infrastructure to the cloud, upgrading their legacy on-premises solution to Nasdaq AxiomSL.

Ed Probst, senior vice president of regulatory technology at Nasdaq, comments: “European banks are subject to intense supervisory oversight and ever-greater reporting requirements, which is driving increasing demand for cloud-based platforms that can readily adapt to change while providing scalability and the highest standards of security.”

Future regulatory changes, such as the EU’s incoming Integrated Reporting Framework (IReF), will be integrated into the Nasdaq AxiomSL platform, ensuring timely and cost-effective compliance, says Nasdaq.

Founded in 2013, AuRep is a collaboration among major banks and financial service providers in Austria, designed to consolidate regulatory reporting infrastructure onto a single, shared platform.

Kenneth Born, CEO of AuRep, states: “Adapting this software in line with the Austrian Central Bank’s granular Integrated Reporting Data Model continues the success story of the Austrian standardised granular reporting platform.

“It enables banks to create and submit reports legally required under Austrian and European regulations, with tailored and efficient software in a consistent and highly standardised manner, while realising economies of share.”

Eurex Enlight now accessible via Bloomberg Tradebook

Bloomberg Tradebook has collaborated with Eurex to facilitate off-book trading for equity options, futures, and FX derivatives.

This collaboration will offer direct access to Eurex Enlight member banks and market makers within the existing CCP environment via the Bloomberg Tradebook front end.

André Eue, head of market development and pricing at Eurex, comments: “Direct access to Enlight through Bloomberg Tradebook represents a major step forward in providing market participants with greater efficiency, cost savings, and control in off-book trading.”

The service allows firms to use their existing clearing broker relationships instead of entering triparty give-up agreements with Eurex market makers.

According to Bloomberg, the integration will help electronify the European off-book market and provide firms with direct control over their trading flow.

Eurex market makers will be able to respond to this flow without incurring additional costs, which Bloomberg states could enable tighter spreads and increased participation.

The service integrates Eurex with Bloomberg Tradebook, allowing firms to use existing clearing setups.

Bloomberg also says that customisable RFQs will give clients control over trade visibility and anonymity.

The connectivity is intended to provide access to off-book trading, which allows market participants to complete large orders outside order books, potentially reducing information leakage.

Brian Coffaro, global head of futures and options trading at Bloomberg, adds: “As market participants explore different ways to trade, Bloomberg is focused on providing them with access to robust trading tools alongside our data and analytics to help them efficiently find the other side of their trades at the best available price.”

Baton Systems launches Eligibility Service

Baton Systems has unveiled its new Eligibility Service — a collaborative workflow solution designed to facilitate and automate the process of evaluating asset eligibility across diverse counterparties.

Through this service, the fintech firm aims to improve transparency, minimise risk, and enhance collateral management decision-making by analysing detailed eligibility schedules.

Arjun Jayaram, CEO and founder of Baton Systems, comments: "Our new Eligibility Service introduces a valuable tool for collateral managers, focused on enhancing collateral efficiency and reducing risk, offering significant potential in time and capital savings.

"It is a modular solution that can be implemented both as part of our wider Core-Collateral ecosystem, or separately through its advanced API that integrates into a firm's proprietary or third-party workflows."

With the option to integrate the system into optimisation processes, the Eligibility Service aims to enable portfolio recommendations to be grounded in precise and reliable data.

By integrating with Baton's API, users can benefit from a single normalised source of information, covering complex counterparty schedules, says the firm.

According to Baton, the launch comes as financial institutions increasingly prioritise digitisation and modernised collateral management amid evolving industry demands.

By determining counterparty acceptability for cash and non-cash assets and unlocking real-time data, such as counterparty haircuts, collateral fees, cross-currency adjustments, and interest rates, clients can identify higher-yielding opportunities, often overlooked by manual assessments.

EquiLend's NGT executed trades up 6% MoM

EquiLend executed 2,935,432 trades on its Next Generation Trading (NGT) platform in January, generating US$2.95 trillion — a 6 per cent increase from December.

According to Mike Norwood, head of Trading Solutions at EquiLend, volatility returned to the global markets, with expectations of inflationary policy by the Trump administration, which faced off with strong economic metrics in the first half of the month, while DeepSeek hitting headlines put the tech sector under pressure in the second half.

Demand for US equities dropped 1 per cent month-over-month (MoM) as US indices were high on economic optimism.

EMEA saw a 13 per cent increase in trade activity as regional indices were up on the back of marginal gains in macro data, based on Purchasing Managers Index (PMI) and retail sales.

The UK was up 17 per cent as some weakness in the British pound created opportunities for selling.

Demand in APAC was near flat (down 1 per cent) as Hong Kong activity dropped by 9 per cent, based on positive Chinese economic data.

Japan saw a 25 basis point central bank rate hike dampen enthusiasm in the equity market, suggests Norwood, creating a relatively flat performance, while securities lending activity was up 3 per cent MoM.

Global bonds continued to be in high demand, with EMEA fixed income up 41 per cent and APAC up 35 per cent, as bond indices experienced heightened volatility but ultimately rallied, driven by weaker-than-expected inflation and the tech sell-off in the US.

Overall, sovereign debt volumes saw increases, with 60 per cent hike in EMEA and 78 per cent jump in APAC.

Credit was in demand as well, with high yield up 28 per cent MoM as spreads tightened between investment grade (up 17 per cent) and high yield.

A new clearing framework: An agent lender cash desk perspective

Fran Garritt, CEO of ISLA Americas, sits down with Justin Lawson to discuss the upcoming US Treasury clearing mandate from an agent lender cash desk perspective, and addresses a critical need to raise awareness of the new rules for in-scope firms

For agent lender cash desks, which transactions fall within the scope of US Treasury clearing?

The US Treasury (UST) clearing mandate will require that any UST repo trade executed under a master repurchase agreement (MRA), where one or both counterparties are direct members of the Fixed Income Clearing Corporation (FICC), must clear through the FICC starting 30 June 2027.

For agent lender cash desks, this will cause a fundamental shift in trade processing, documentation, and compliance. To ensure readiness, agent lender cash desks will need to take several key steps:

Legal documentation: All in-scope trades must be papered under FICC documentation, requiring updates or addendums to existing MRAs. While MRAs will remain in place, firms will need to incorporate FICC-specific addendums, a process that can be legally intensive and time-consuming.

Onboarding and account readiness: Firms must ensure that all trading accounts engaging in FICC-cleared UST repo transactions are properly onboarded onto the FICC platform prior to execution.

Compliance with FICC rules: Once the mandate takes effect, all applicable trades will be subject to the FICC rulebook, necessitating strict adherence to clearing house protocols and risk management standards.

From a broader industry perspective, this transition should be viewed as a comprehensive 're-papering' exercise, where both counterparties to a trade — the cash desks and their repo counterparties — must complete the necessary legal and operational modifications in tandem. Given the scale of these changes and the industry-wide impact, early preparation and collaboration will be essential to ensuring a smooth transition ahead of the compliance deadline.

Beyond documentation, what other legal considerations should the industry be evaluating in preparation for UST clearing?

While updating legal agreements is a fundamental step in preparing for UST clearing, the industry must also take a broader, more strategic approach to legal standardisation, efficiency, and adaptability — particularly as additional FICC trade types emerge and the potential for new central counterparty clearing houses (CCPs) enter the discussion.

One key consideration is the standardisation of documentation. The industry should explore the possibility of developing a core set of legal agreements with modular addendums, allowing for greater flexibility when new trade types are introduced. This would significantly reduce the need for full contractual renegotiations and streamline onboarding for counterparties.

Additionally, adopting a CCP-agnostic documentation framework would be beneficial. As new CCPs potentially enter the market, a flexible legal structure could prevent firms from having to undergo a full repapering process every time a new clearing venue is introduced, enhancing long-term efficiency.

Finally, early engagement with legal teams representing agent lender cash desks is critical. Bringing cash desk lawyers into the drafting process at an earlier stage ensures that their specific concerns — particularly regarding trade structures, compliance, and operational feasibility — are addressed proactively. This approach would help mitigate potential legal and operational challenges before they become industry-wide issues.

By prioritising these legal considerations, the industry can create a more adaptable and scalable framework that not only facilitates compliance with the upcoming clearing mandate but also positions firms for long-term success in an evolving market structure.

What are some of the existing and emerging trade types the industry is considering, and have agent lender cash desks been actively involved in these discussions?

The clearing of UST repo through the FICC is not a new trade structure; it existed well before the US Securities and Exchange Commission's (SEC's) UST clearing mandate and has been a critical tool for managing liquidity, particularly during month-end and quarter-end funding cycles. However, with the transition to mandatory central clearing, the industry is reassessing existing trade structures and considering new trade types that will align with the FICC's clearing framework and the evolving regulatory landscape.

Currently, there are four primary trade routes into the FICC, each encompassing different trade structures — some are already live, while others remain in the development phase. It is imperative for each trading desk and entity type to understand these trade structures and determine the best approach to ensure a smooth transition ahead of the regulatory go-live date.

For most agent lender cash desks, the expected day one trade setup will likely involve two key trade types:

Sponsored member done-with trade: In this model, the sponsoring member acts as the initial counterparty to the trade until the transaction is novated into the FICC. This setup closely mirrors the way bilateral UST repo transactions are executed today.

Sponsored member done-away trade: Here, the sponsoring member or clearing agent facilitates the trade into the FICC but does not act as the counterparty on the other side.

Beyond these foundational trade types, the industry is actively developing additional trade structures aiming to enhance market efficiency, increase participation, and align with regulatory objectives. Agent lender cash desks recognise the importance of being part of these discussions to ensure their operational and legal considerations are adequately addressed.

Ultimately, as the market adapts to these regulatory changes, it is critical for agent lender cash desks to stay engaged with the FICC, regulators, and broader industry working groups. Their active participation will help shape the future of UST repo clearing, ensuring that the transition is both operationally viable and strategically beneficial for all market participants.

What are some of the key considerations for agent lender cash desks as they prepare for FICC readiness?

There are two major considerations for agent lender cash desks as they transition to FICC readiness, these are onboarding client accounts onto the FICC platform, and real-time disclosure of underlying principals at the time of trade submission.

One of the biggest challenges is that client onboarding must occur at the account level, not at the client or overall relationship level. This introduces several complexities, for example, the FICC's jurisdictional limitations may restrict certain accounts from being onboarded. In addition, the large number of accounts requiring onboarding creates a significant operational workload, while smaller-dollar accounts may be deprioritised if they are deemed less attractive from an efficiency or cost perspective.

Given these constraints, there is a real possibility that not all client accounts will be ready to trade through FICC by day one of mandatory UST clearing. The International Securities Lending Association (ISLA) Americas working group is actively exploring structuring options to maximise client participation, but even with the one-year extension (from 30 June 2026 to 30 June 2027), the timeline remains tight. Some client accounts may not be fully onboarded in time for the regulatory go-live date.

Another major shift is the requirement for real-time disclosure of underlying principals at the time of trade execution. Currently, most cash trades are executed from an omnibus account, where the total cash amount is known, but the specific underlying account allocations are finalised at the end of the day or overnight. Under FICC's framework, however, cash desks will be required to confirm both the account level and dollar allocation at the time of trade submission.

This introduces several operational challenges. Account allocations can fluctuate throughout the trading day due to loan returns and other underlying activity, making it difficult to lock in precise allocations at the time of execution. Managing intraday cash flows becomes more complex, as firms will need to ensure accounts remain properly funded to avoid overdrafts or trade breaks.

To address these challenges, cash desks may need to introduce buffer mechanisms or adjust liquidity management strategies to account for shifting allocations throughout the day.

Ultimately, FICC readiness is not just a legal or procedural change, it requires a fundamental shift in how agent lender cash desks operate. Firms will need to actively engage with industry working groups, regulators, and trading counterparties to navigate these challenges to lead to a smooth transition.

Does the industry anticipate a pricing differential between trades cleared through FICC versus those conducted outside of FICC?

At this stage, it is too early to determine with absolute certainty how pricing differentials will materialise between FICC-cleared UST repo transactions and those executed bilaterally outside of the central clearing framework. Preliminary industry expectations suggest that FICC-cleared UST repo trades will likely be priced consistently with, or within a one to two basis point range of, comparable non-FICC repo transactions for the same collateral type long-term. However, in the short-term following the 30 June 2027 go-live, the industry will expect a period of price discovery between the trade types, as all accounts may not be available to clear through FICC.

Several factors may influence the pricing dynamics between those trades that clear through FICC and those that do not:

Counterparty credit and risk mitigation: One of the primary benefits of clearing through FICC is the reduction of bilateral counterparty credit risk due to the novation of trades to the clearing house. This structural advantage could lead to more favourable pricing for centrally cleared trades compared to bilateral repo transactions, where counterparty risk is managed through credit lines and collateral agreements.

Regulatory capital and balance sheet considerations: FICC-cleared trades may offer capital relief benefits for certain market participants, particularly for banks subject to Basel III capital requirements and supplementary leverage ratio (SLR) constraints. If these capital efficiencies prove significant, they could translate into more competitive pricing for centrally cleared repo transactions relative to non-cleared alternatives.

Operational and liquidity efficiencies: Market participants are still assessing the operational cost-benefit trade-offs associated with FICC clearing. While central clearing provides benefits such as standardised margining and netting efficiencies, it also introduces new operational and compliance requirements, including additional documentation, onboarding processes, and trade reporting obligations. These factors could impact transaction costs, which in turn may influence pricing.

Market adoption and liquidity shifts: As more participants transition to FICC-cleared UST repo, liquidity may consolidate around the centrally cleared model, potentially narrowing bid-ask spreads and reducing pricing differentials. However, if significant market segments continue to operate bilaterally, some divergence in pricing could persist.

Ultimately, as the go-live date approaches, market participants will gain greater clarity on pricing trends. Industry-wide discussions and data-driven analysis will be critical in understanding how FICC clearing impacts repo market pricing in both the short and long term.

What steps should beneficial owners take to effectively prepare for UST clearing, and how can they ensure that they are aligned with the requirements set forth by the FICC rulebook?

Unlike many other trade types that offer some flexibility in their execution and processing, UST clearing through the FICC will be strictly governed by the FICC rulebook, which is comprehensive and prescriptive in nature. To effectively prepare for this transition, beneficial owners should begin by engaging proactively with their cash providers to ensure they thoroughly understand the FICC rules and their implications for the various lending/cash programmes. This collaboration will help identify any potential operational challenges, necessary system upgrades, or compliance adjustments required under the new framework.

Given that the FICC rulebook outlines stringent requirements regarding trade submission, margining, and settlement processes, beneficial owners should prioritise aligning their internal processes with these rules. This may involve enhancing communication with custodians, clearing firms, and legal teams to address any nuances in the rulebook and to ensure a smooth adaptation to the UST clearing system. Furthermore, staying informed about updates and clarifications from the FICC, as well as participating in industry webinars or working groups, can provide beneficial owners with valuable insights during the ramp-up phase and help mitigate any risks associated with this transition.

You mentioned the potential for new CCPs entering the UST clearing market. What is the likelihood of this development, and what factors would drive such a transition?

Currently, the UST clearing market is primarily dominated by FICC, and industry efforts are focused on guaranteeing readiness for FICC's expanded role in clearing UST trades. While other CCPs such as CME and ICE Clear have expressed interest in entering the UST clearing space, the transition of significant volumes to another CCP would require substantial buy-in from direct members, which includes market participants such as dealers, institutional investors, and beneficial owners. In order for a new CCP to gain traction in the market, it would need to reach a critical mass of participation from these direct members.

This is essential, as CCPs rely on robust participation to manage risk and ensure liquidity, and without sufficient volume, their ability to function effectively would be severely limited. The development of alternative CCPs in this space would likely depend on several factors, including the ability to offer competitive pricing, operational efficiency, and a favourable regulatory environment.

While the FICC remains the primary clearing venue for UST, ISLA Americas will continue to monitor the progress of potential new CCP entrants and their ability to attract the necessary critical mass. Individual cash desks and market participants will also need to assess whether new CCPs can offer the same level of stability, transparency, and risk management that FICC currently provides. Therefore, the likelihood of a significant shift to another CCP remains contingent on the evolution of these factors and the ability of competing CCPs to meet the market's needs.

In the Spring of 2020, the UST market experienced significant liquidity challenges. Given the implementation of UST Clearing, do you anticipate that this framework will serve as a comprehensive solution for addressing liquidity concerns in the future?

The liquidity challenges faced by the UST market in the Spring of 2020 was a stark reminder of the vulnerabilities within financial markets, particularly during times of heightened volatility and economic stress. The adoption of UST clearing, specifically through entities like the FICC, is undoubtedly a positive step towards improving market infrastructure, providing enhanced risk management, and bolstering transparency. However, while UST clearing can play a critical role in stabilising market functioning by centralising counterparty risk and facilitating smoother settlement processes, it may not serve as a panacea for all future liquidity concerns.

The primary benefit of UST clearing lies in its ability to mitigate counterparty risk by acting as an intermediary, therefore reducing the risk of defaults during periods of extreme market stress. Additionally, it can help facilitate more efficient price discovery and smoother execution of transactions, which may enhance liquidity under normal market conditions. However, liquidity in the UST market is influenced by a complex interplay of factors, including investor sentiment, economic policies, global events, and the broader macroeconomic environment. During episodes of crisis or market dislocation, such as what was witnessed in 2020, other underlying systemic risks — such as credit risk, market depth, or sudden shifts in investor behaviour — can overwhelm even the most robust clearing mechanisms.

Therefore, while UST clearing can help mitigate some of these risks, it is not an all-encompassing solution. Moreover, ongoing monitoring and potential enhancements to the UST clearing framework will be essential to address emerging challenges in an increasingly complex financial landscape. While UST clearing is an important tool in enhancing market resilience, it is unlikely to serve as the sole remedy for all liquidity concerns, particularly in the face of systemic or structural market disruptions.

What else can we anticipate from ISLA Americas on the subject of UST clearing?

ISLA Americas is addressing the UST clearing transition through a comprehensive approach that includes thought leadership, industry events, and educational initiatives. In addition to the upcoming complimentary ISLA Americas UST Clearing Briefing on 7 April 2025, at BNY in New York City, featuring a keynote fireside chat with Manmohan Singh from the IMF and insightful panels with market participants, and legal experts, ISLA Americas is actively collaborating with Securities Industry and Financial Markets Association (SIFMA). SIFMA has been deeply engaged in key areas such as documentation and legal frameworks.

Our advocacy group has conducted targeted educational sessions, equipping market participants with the necessary insights to navigate this evolving regulatory landscape. Furthermore, UST clearing will be a topic at our upcoming Operations & Technology event, where industry operations and technology leaders will examine its broader implications. This critical conversation will also continue at the ISLA Americas conference in October, ensuring that our members remain well-informed and fully prepared for implementation.

As the industry evolves, we remain committed to adapting our efforts to meet the needs of our members and market participants, providing guidance, resources, and advocacy wherever necessary.

ISLA Americas has identified a critical need to raise awareness of the SEC's forthcoming US Treasury clearing mandate from the perspective of repo cash desks for cash reinvestment on the back of securities lending transactions. As many are aware, the SEC finalised the UST clearing rules in December 2023, introducing far-reaching changes with multiple layers of industry readiness. While firms are preparing for these requirements, UST repo trading is scheduled to transition to central clearing on 30 June 2027.

To date, advocacy efforts by SIFMA and other industry associations have largely centred on broker-dealer issues, particularly those affecting direct members of the FICC, a registered clearing agency that facilitates fixed income transactions. These efforts have also encompassed some of their trading partners. As the industry navigates the transition to a new clearing framework, it is important to also consider the role of agent lender cash desks (repo cash desks), which trade US Treasury repo with direct FICC members. Given their function as cash leg providers in these transactions, incorporating their perspectives into policy discussions will help ensure a comprehensive and effective approach to market evolution.

ECB trials in review: Perspectives from the DACH region

In the first of two articles, Daniel Tison invites Clearstream, DekaBank, and the ValueExchange to share their key findings and future visions, following the completion of the ECB DLT trials and experiments

The European Central Bank (ECB) has completed what is potentially the most ambitious distributed ledger technology (DLT) experimentation programme in the world to date. Bringing together 64 entities, including three central banks, to explore how DLT could be used to improve the settlement of tokenised securities and cash, the trials executed more than 200 trades, processing over €1.6 billion in issuance.

According to Barnaby Nelson, CEO of the ValueExchange (VX), the ECB DLT trials and experiments turned out to be "really significant" in terms of size and scale. His organisation has closely monitored the initiative, gathering feedback from 32 participating firms. To Nelson, the results reflect not just the scale of the project, but its transformative potential for European financial infrastructure.

He exclaims: "You've got 60 of the biggest organisations in Europe who are, instead of thinking about it, they're all doing it now, which is super exciting!"

A report on the ECB DLT trials and experiments (commonly known as 'ECB trials'), which the VX produced in partnership with Clearstream in January, says the exploratory work moved most participants from beginners to intermediate, in terms of experience and expertise in DLT, and what would have taken years otherwise, was achieved within only a few months.

Step by step

From May to November 2024, three central banks – Bundesbank, Banca d'Italia, and Banque de France – worked alongside a broad coalition of financial institutions and fintech firms to simulate live transactions. According to the VX report, the size and diversity of participants ensured a thorough assessment of how DLT could operate within Europe's existing financial framework.

The initiative was designed to test the viability of using tokenised assets in different payment environments, focusing on key use cases such as real-time collateral management and margining. While the trials included actual settlement in central bank money, the experiments worked with mock settlement.

Deutsche Börse Group participated in the exploratory work through a number of its entities, such as Clearstream, Eurex, and LuxCSD.

Clearstream joined the ECB trials as a market DLT operator with its digital post-trade platform D7 and all three of its central securities depositories (CSDs), covering the domestic markets in Germany and Luxembourg, as well as the international market with its international central securities depository (ICSD). During the exploratory work, Clearstream took part in 10 different use cases, including commercial papers, securities, and repos.

Thilo Derenbach, head of sales and business development for digital securities at Clearstream, explains: "We did so because we wanted to make sure that we experience the trials in the broadest possible way. We wanted to give all of our clients the possibility to participate because if we had participated with only one of our three CSDs, some clients would have been left out of the opportunity. More importantly, though, we wanted to trial all three payment solutions that were offered, and give our clients all options."

Several transactions were executed through a Frankfurt-based fintech SWIAT, a joint venture of DekaBank, Landesbank Baden-Württemberg (LBBW), and SC Ventures. Notable transactions included a €300 million digital bond with Siemens, and digital bonds with the state of Saxony-Anhalt and KfW. DekaBank also conducted repo transactions with LBBW and NatWest using both digital and traditional securities.

Experimentation was divided into two phases – each with a distinct focus and objectives. Wave 1, running from May 2024, focused on the initial testing and feasibility of DLT for issuing and settling tokenised securities. Participants worked on integrating DLT platforms with existing systems, testing basic functionality, and assessing the viability of various digital cash mechanisms, including central bank digital currency (CBDC), commercial bank money, and tokenised money.

The first experiment, carried out by the Austrian National Bank (Oesterreichische Nationalbank), covered the tokenisation and simulated delivery-versus-payment (DvP) settlement of government bonds in a secondary market transaction against central bank money.

Wave 2 started in July 2024 in parallel with the first wave, exploring advanced use cases, particularly in collateral management and margining. Trials in this phase demonstrated how DLT could enable real-time, 24/7 access to tokenised assets, significantly improving liquidity management and operational efficiency.

This kicked off with Clearstream, DekaBank, and DZ Bank jointly issuing two tokenised €5 million bonds using DLT. According to Clearstream, the transactions marked the first institutional-grade issuances in Germany on DLT using wholesale digital central bank money.

In October, Clearstream jointly processed a set of cleared repo transactions using DLT, along with ABN Amro Bank, ABN Amro Clearing, Rabobank, Eurex Clearing, and Eurex Repo. The first set of repos were processed intraday, the second overnight. The basis for the repo transaction was a tokenised eurobond/commercial paper issued by ABN Amro Bank.

In November, Clearstream and Intesa Sanpaolo jointly issued and distributed a commercial paper using DLT. For the transactions of €10 million, participants used the TIPS Hash Link solution of Banca d'Italia, the Italian central bank.

Winning the battle, but not the war

Reflecting on Clearstream's participation in the initiative, Derenbach comments: "We were very positively surprised by the level of engagement by the central banks that joined and by the outcomes of the use cases, primarily in the sense of speed and efficiencies. All of the use cases and all of the payment solutions worked equally well."

He notes that the trials and experiments were an opportunity to learn about security tokenisation and triggering cash processes on-chain, but also about the relevance and importance of CCPs in this space.

Michael Cyrus, head of collateral trading, foreign exchange, and digital assets at DekaBank, shares this enthusiasm: "The key takeaways from the ECB trials are that they were successful and the Bundesbank's trigger solution works very well — it is transparent and easy, and ready to use. Central bank money is important for wholesale securities transactions, and it is fantastic to see that the central banks are ready for the challenge."

He adds that shortening settlement times from several days to within the same day, using products like registered bonds, reduced counterparty risk, but many banking systems are not ready for this yet.

"We also learned that while central bank money is important, we need commercial bank money on the blockchain too," says Cyrus. "Ideally, we would have securities, cash, and derivatives on the blockchain for better efficiency. Thereby, we would also create a reliable data source. The idea would be to have a unified ledger and a dynamic, decentralised golden source of data."

One of the most critical outcomes of the exploratory work was the confirmation that Europe's three digital cash mechanisms — central bank money, commercial bank money, and tokenised money — are all ready for large-scale implementation. The success of these mechanisms paves the way for broader adoption of DLT across the European financial system, bringing the region one step closer to a fully digital financial infrastructure.

Cyrus believes that DLT can be used for both traditional and digital native securities. In securities lending, this could mean delivery versus delivery, while the currently, both securities legs are effected independently, ie free of payment. However, the real benefits of DLT are seen with digital assets.

He explains: "A tokenised money market fund allows you to redeem shares anytime. However, if the underlying securities still have standard settlement times, this could cause discrepancies. Ideally, digital native assets would allow all transactions to settle instantly, or at least have the option to do so. The idea would be that all parts of the value chain are fully digitised."

An enormous desire to keep going

The momentum generated by the ECB trials is clear, according to the ValueExchange report. More than 80 per cent of participants in the survey expressed a strong desire to see the trials continue into 2025, with many firms now focused on commercialising their connectivity to central bank digital infrastructure.

"The feedback has already been very clearly understood by the Eurosystem and by the three central banks that there is an enormous desire to keep going," says Nelson. "People have spent a lot of money last year doing these trials, so they need to see ROI on that by doing a second trade."

He would like to see more OTC swaps and bilateral collateral exchanges in the next phase, bringing big asset owners and collateral takers into the game.

In contrast, Cyrus would like to create more cash or cash-near solutions for the DLT sector. This includes central bank money to reduce counterparty risks, he explains, commercial bank money for those comfortable with bank risks, and money market tokens for those who want to store their money safely and with a yield pick-up.

"If participants only have central bank money or stablecoins, they might withdraw money from the DLT to get better returns," says Cyrus. "Current DLT networks for banks find it difficult to retain cash on their platforms because it is not attractive. Therefore, tokenised money market solutions are important to keep cash on the blockchain and make it fully interchangeable with central bank money, commercial bank money, and digital assets. This will help enormously in the development of a DLT-based digital financial ecosystem."

Looking ahead, Derenbach anticipates: “Is DLT going to be applicable across the industry already in 2025? Unlikely, but market participants will start using it next to the traditional rails. I expect payment solutions to be a focus topic in 2025, especially if the ECB reopens the gates for the payment solutions on-chain.

“We’re looking forward to having proper delivery-versus-payment transactions being processed structurally and in high numbers also on-chain. It’s interesting and beneficial to have cash and securities in the same ecosystem, and we have that in the traditional world, but we look to elevate that also onto the blockchain.”

However, he also cautions against the assumption that tokenised securities will scale rapidly once cash on chain becomes widely available. While he acknowledges that digital cash is a crucial building block, he argues that other key components — such as efficient collateral management tools, securities lending capabilities, and interoperability between blockchain networks — are still missing. Until these gaps are closed, institutional adoption of tokenised securities will remain limited.

On that note, Cyrus adds: “Tokenisation and digitisation alone do not create secondary market liquidity. Liquidity comes from the interaction of many players like market makers, issuers, investors, and trading platforms, with central bank support. We still have work to do in this area.”

His vision is to create a decentralised, unified ledger with cash, near-cash, digital assets, and derivatives based on a dynamic, reliable source of data, which would allow for netting benefits with respect to capital, liquidity, and balance sheet usage.

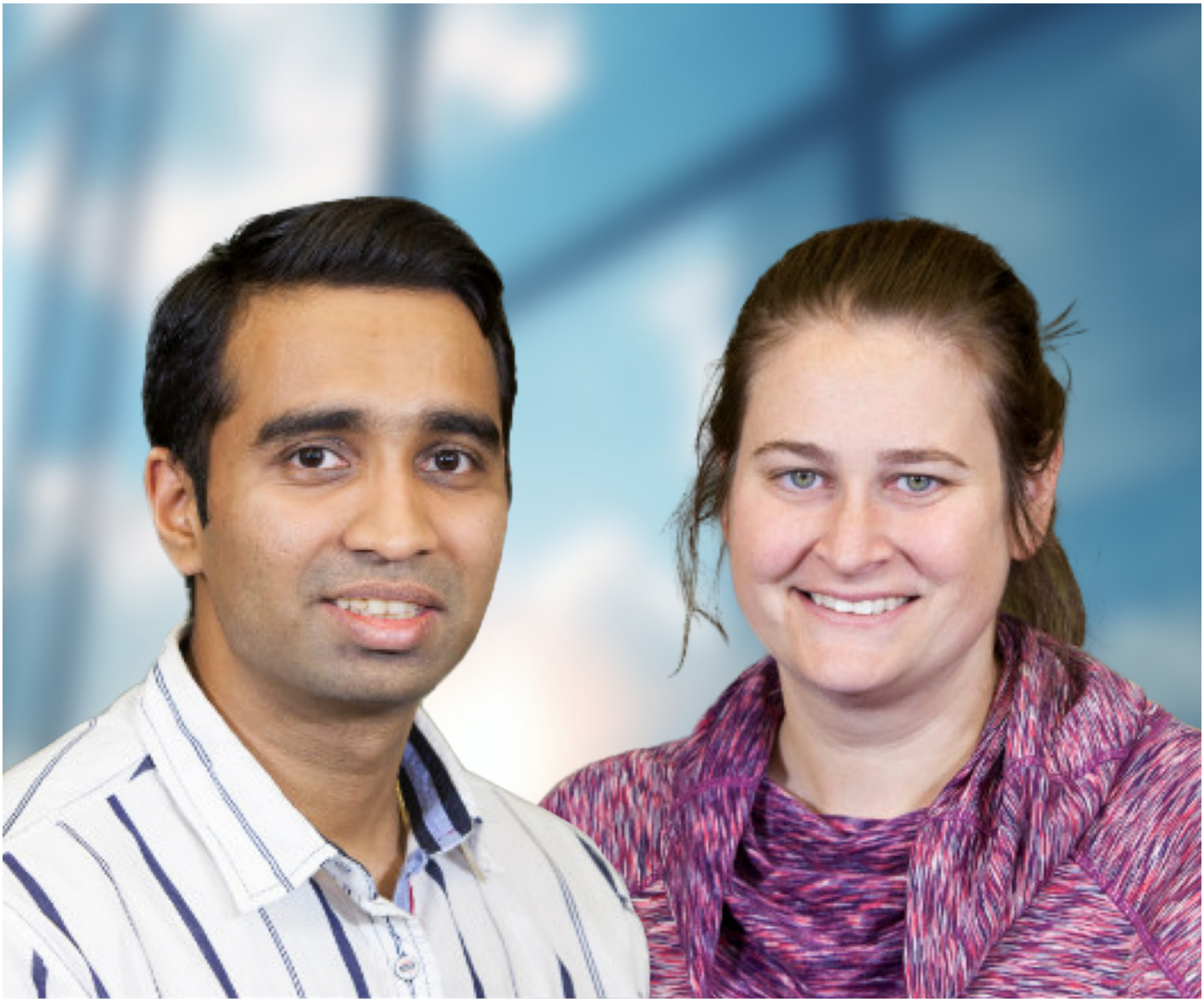
“Once this is achieved, we could expect a ChatGPT moment for DLT,” he states. “We also aim to have more issuers, more investors, and marketplaces to create liquid, digital markets.”

In the next instalment of this two-part series, Daniel Tison will explore the French perspective on the ECB trials, speaking with representatives from BNP Paribas and Banque de France — one of the participating central banks. The discussion will complement the review of the exploratory work and highlight concrete next steps for DLT adoption in European capital markets.

Barnaby Nelson
CEO
The ValueExchange

Thilo Derenbach
Head of business development
Clearstream

Michael Cyrus
Head of short term products, equity finance and foreign exchange
DekaBank



Margin replication and simulation: Mastering treasury risk management

Arcesium's Himanshu Bagri, product lead, Treasury Suite, and Ashley Bell, vice president, Financial Operations, look at the importance of timely margin calculations when managing risk

In 2021, Archegos Capital Management infamously collapsed after failing to meet margin calls, wiping out millions of dollars in market value in a few days. The family office, operating like a hedge fund, had taken on hidden leverage via derivatives that created significant risks for its counterparties. This included prime brokers, such as Credit Suisse's US$5.5 billion hit when Archegos failed to meet margin calls during a sharp market downturn.

Its founder was recently sentenced to 18 years in prison for using complex derivatives to secretly build massive, undisclosed stock positions and engaging in a sophisticated market manipulation scheme that ultimately caused billions in market losses and destabilised multiple financial institutions. The episode highlighted the dangers of leverage and poor risk management, as well as the ensuing impacts that pose dangers to financial stability.

Economic uncertainty calls for vigilant treasury risk practices

The Financial Stability Board (FSB) warned that non-bank participants must be better prepared to endure times of market stress and crises when sudden increases in margin and collateral requirements are sometimes significant in scale and frequency. The pandemic era introduced the greatest market and economic disruption in the United States since the 2007-09 financial crisis. Since then, calamity has become the rule and not the exception.

In 2024, the Federal Reserve promised seven rate cuts and delivered three. Experts are now forecasting only one cut in 2025. The treasury yield curve has been uninverted, for now. Recessions historically follow an inverted yield curve, usually within a 12 to 18-month window. Economic uncertainty calls for vigilant treasury risk practices — as does geopolitical uncertainty.

Margin call volumes spiked during Covid-19's early days. Extreme commodities market movements followed Russia's invasion of Ukraine in 2022. At that time, the European Association of CCP Clearing Houses, along with industry groups for the energy industry and traders, warned of "intolerable cash liquidity pressure" for energy companies hedging their risks.

Just last August, the CBOE Volatility Index (VIX), aka the 'fear gauge', soared to 65 (it was 82 when Covid emerged) when hedge funds borrowed low-yielding yen to buy higher-performing assets. Investors were concerned that sudden deleveraging would cause stocks to fall globally. While the panic did not portend catastrophe inequities, bettors against volatility suffered, as investors in 10 of the biggest short-volatility exchange-traded funds saw US$4.1 billion of returns erased from highs reached earlier in 2024. Many experts observed that perhaps the market dodged a bullet in this inscrutable episode.

Volatility comes from all directions, even from those betting against it. As the new US administration takes office, a new level of disruption is not impossible to imagine. Firms must be ready for anything.

The FSB advised regarding liquidity risk management practices:

- Market participants should incorporate the assessment of liquidity risks arising from margin and collateral calls in their liquidity risk management and governance frameworks.
- Market participants should define their tolerance for liquidity risk arising from margin and collateral calls and establish contingency funding plans.
- Market participants should regularly review and update their liquidity risk framework.

Margin replication for optimal treasury risk management

Margin replication, executed in-house, gives your treasury department the power to predict the margin calls before they are received and enables them to estimate the margin impact of upsizing or downsizing existing position movements. Managers who can execute in-house margin replication can reduce the reliance on counterparties' margin calculations. They then have more control over their collateral management and cash instead of giving it to counterparties. This allows them to recover a lot of excess margin calls and reduce the risk to counterparties.

In 2008-09, the subprime mortgage crisis had firms liquidating the quickest thing they could in a fire sale of equities. A domino effect exposed real inefficiencies in the market in which equities were being bought and sold for higher and lower prices than what they should have been. Firms with a lower unencumbered cash ratio had to liquidate positions, taking losses. A margin replication mechanism enables managers to mitigate losses by having transparency into where to move positions — without incurring a loss or penalty. Firms can then avoid selling assets under unfavorable market conditions, protecting portfolio value.

Strategies to mitigate counterparty and collateral risks

Reducing exposure and counterparty risk is another practical value-add of margin replication. Margin replication gives funds visibility into what the collateral movements should actually be, so they can claw back the overestimated margin to reduce dependence on the least advantageous counterparties. A hedge fund heavily reliant on a single broker or clearing house for margin financing may face sudden demands for additional collateral if the counterparty tightens credit terms.

In 2008-09, a lot of brokers were forced to reevaluate how much leverage they were willing to extend because they were collapsing. Funds should negotiate provisions like lockups and cross-margining agreements to reduce the risk of sudden collateral demands. With good lockups in agreements, companies have time to figure out their next moves, renegotiate agreements, or move positions to diversify counterparties and assess their creditworthiness. A manager's ability to produce another option during volatile events is critical to maintaining stability.

> "Volatility comes from all directions, even from those betting against it."

In addition to mitigating counterparty risk, funds should have access to proprietary margin attribution through which they can track capital consumption at a manager or strategy level, thereby providing greater transparency to asset managers.

Margin simulation capabilities through APIs can model hundreds of different scenarios — such as shocking existing portfolios or creating new portfolios to estimate margin requirements — which then feeds into firm-wide risk management practices. Slowly and steadily, this is no longer just a use case for middle and back office-focused functions — the front office is also finding these margin simulation capabilities useful too.

Practical approaches to margin simulation and optimisation

Self-directed margin replication bolsters firms' risk management postures. Treasury managers with the capability to run precise margin simulations for a daily view into position-level margins elevates firms to a superlative level of risk management. During the Russian invasion of Ukraine, when the energy markets were behaving erratically, we at Arcesium were running margin simulations for a client every day for a year because the energy portfolio had to post billions of dollars in collateral to maintain its trading positions.

The FSB is calling for "liquidity stress tests to cover a range of extreme but plausible scenarios, including both backward-looking and hypothetical scenarios". Margin simulation can enable asset managers and hedge funds to do just that. These calculators can understand the potential impacts of certain transactions or position movements by running daily what-if analyses on existing or hypothetical positions with production or hypothetical margin calculators.

There was a sell-off on Wall Street on the heels of the 10 January jobs report and rising treasury yields. A larger market correction could have resulted in increased margin calls for equity derivatives and collateral shortfalls. Hypothetically, a 15 per cent depreciation of a foreign currency can happen, leading to higher margins for FX derivatives and cross-border positions. Hypothetically, inflation spikes and the Fed enacts a two per cent rate hike, stressing leveraged bond positions. A fund's liquidity can be threatened in numerous unforeseen ways.

A tenuous path to a soft landing calls for proactive liquidity preparedness

Market participants now do business in an economy in transition. The US December 2024 jobs report surprised economists with an employment gain that exceeded forecasts by an astonishing 100,000 jobs, giving the Fed a lot to think about in considering its plan to lower interest rates twice in 2025. A positive yield curve, much less a normalised one, is not guaranteed. Any spike in inflation or other portents of a recession can lead to rapid rate increases. Higher rates can leave a hedge fund's counterparties dealing with fluctuating derivatives positions and therefore may seek higher margin requirements.

Margin replication and simulation go a step beyond the liquidity preparedness recommendations of the FSB. Firms that can remain agile when facing unexpected collateral and margin calls will be the ones that have installed more effective liquidity risk management governance. Funds can execute what-if margin analyses to test moving positions around counterparties to optimise margin requirements, further reducing their liquidity strain. In our markets and economy, question marks have been outnumbering full stops.

From Africa to Asia: An update on the market

After attending headline conferences held by the South African Securities Lending Association, and the Pan Asia Securities Lending Association, Carmella Haswell breaks down the key findings and lessons learnt from participant discussions

Conference season is in full swing as market participants fly around the globe to discuss the core topics on the minds of banks, beneficial owners, technology providers, and regulators alike.

In Cape Town, South Africa, industry experts explored the regulatory issues impacting the securities financing transactions market, the ever-changing collateral environment, as well as the current trends being seen across the world.

While in Macau, China, speakers analysed how recent geopolitical events are shaping the financial landscape, the trending topic of retail lending, and the structural changes in Asia's capital markets.

Securities Finance Times reveals the core lessons from both the South African Securities Lending Association (SASLA), and the Pan Asia Securities Lending Association (PASLA) events.

Reg IM brings questions to South Africa's SFT market

Industry participants reviewed the upcoming initial margin (IM) regulation set to face South Africa in September, and how it will impact the securities financing market.

Nicolette van der Merwe, business manager of collateral at Standard Bank, asked: "Are clients going to move away from derivatives and channel that to repo to get away from some of the collateral costs?"

Attendees of the South African Securities Lending and Collateral Management conference gathered in Cape Town where the 'Collateral and Tech' panel explored the ever-changing collateral landscape and the upcoming Uncleared Margin Regulation (UMR).

According to van der Merwe, the collateral space locally has "so much going on at the moment". She listed cost, sustainability, and opportunity as main themes in this area.

"If we can get the agility right and education in the market, then we will be in a very good space to execute liquidity opportunities with confidence and excellence," she added.

The South African market is still grappling with regulatory changes and the introduction of triparty. On the panel, van der Merwe noted that "we have the regulators keeping us on our toes, who will likely make us wait until the 11th hour before giving the ODP's clear guidance on our model approval required for the September 2025 regulatory IM exchange".

The regulation in question focuses on OTC derivatives and was brought about by the Basel Committee to ensure that banks and ODP providers reviewed their liquidity, risk, and capital management.

In a global market sense, this means, operationally, that firms need to look at their collaboration with treasury and trading more efficiently. Van der Merwe explains: "Those two businesses haven't historically had too much interaction except for funding.

"That becomes much more pertinent now because firms have to balance which part of their collateral pool is going to HQLA and which part is going to regulatory IM."

In "a nutshell", van der Merwe summarises that the regulation is a way for the regulators to ensure counterparty credit risk is better managed and to ensure sustainability of the market.

Following the conversation, Farzana Khan, head of Collateral Services at Strate, added: "The focus on IM is definitely growing. In 2024, we did expect some impact, which was limited, and now we're gearing up for that impact in 2025 where we're expecting five, six or seven entities to be in scope."

Khan highlighted that triparty can play a strong supporting role in the readiness for the regulation. In addition, it is important to leverage global experience. "Someone has walked this path before you, you don't have to reinvent the wheel, and you can almost short-circuit in some instances by leveraging their lessons learned."

Steve Lethaby, senior vice president, Global Financing and Funding sales and relationship management at Clearstream Banking, explained that triparty "makes life so much easier for both counterparties" in terms of regulation IM compared to bilateral agreements.

He noted that triparty agents add value such as mark to market, substitutions of collateral, corporate actions, changing collateral schedules and managing the eligibility of these also.

Currently, one of the challenges facing the South African market in relation to regulation IM is that regulators have yet to approve a standard initial margin model (SIMM).

Failing approval, van der Merwe indicated that the region will be forced to "fall back" on a standardised method, otherwise known as "the grid", which is "much more punitive".

The clock is ticking for those yet to fall in scope of the regulation, panellists urged clients to onboard sooner rather than later.

Trends hitting the global market

Industry participants face a global pressure on cost, the opening of African securities lending markets, and uncertainty around the US 10c-1 regulation in 2025.

The South African event in Cape Town saw panellists explore the trends coming from Europe, the UK, US, and Asian markets.

For Igor Salzgeber, global head of FIS's Securities Finance and Collateral product group, the most common theme seen globally is the “massive pressure on cost” as “budgets are super tight”. Nowadays, there appears to be much more scrutiny in terms of projects and a greater awareness of what has to be achieved with any technology spend or movement.

He also noted numerous “inefficiencies that apparently are unavoidable” and attempts to eliminate inefficiencies in the post-trade space as a current trend.

“We are focusing more on the front office to better understand how traders plan to spend their time at the desk, and what steps and processes should actually be automated? Like the example that was quoted earlier on, which was: what do I want to get out of the warm bodies that will still survive at the desk? That is a strong trend that we're seeing towards the tech providers to make this a more profitable contribution for them,” he added.

Across the globe, especially in terms of Europe and Asia, there is a shift from the traditional lender, borrower distinction, as well as an increase in the use of products like total return swaps (TRS). Raj Karan Singh, co-head of securities finance and delta one at Mirae Asset UK, indicated that a “massive rise” in swaps has been seen in Taiwan.

During the ‘Global update on SecFin’ panel, Singh also highlighted an interest in new markets such as India, which led Mirae Asset UK to buy a broker-dealer in this location.

“Korea and India have a double taxation treaty that allows for capital gains as exceptions within certain scenarios, which basically puts us in a unique circumstance to actually provide this to the client,” he added.

Singh believes India to be an interesting market, but one that is quite tough to access given the requirement for a local presence and regional licencing requirements.

In relation to new interesting markets, the panel’s moderator Hitesh Harduth, head of securities lending at Standard Bank, added that there are three core African markets currently looking to implement securities lending. These are Nigeria, Kenya, and Botswana.

He continued: “Securities lending is there to provide liquidity into the market, and they are crying for that liquidity. There are a number of regulations that are hindering the process. For instance, in Nigeria, we are waiting for a decision to allow pension funds to do lending.”

Rounding off his exploration of the three regions, Harduth said: “There is a lot of work being done, there’s a lot of education and market advocacy that goes into getting these new markets going, but it's nice to see them evolving in Africa and to see growth.”

Moving the conversation along, EquiLend’s Emily Hollyoake, head of account management and client success EMEA, stated that the top themes impacting market participants are in many cases directly or indirectly driven by regulation.

The need for better risk management, capital efficiency and increased transparency is resulting in an increased need for more standardisation and optimisation, particularly as firms grapple with antiquated systems.

“Interoperability has often been spoken about, significant advances have been made in standardising the exchange of data, our ability to accommodate the receipt of data in most formats, ie other vendors formats is an example of this,” she explained.

From an optimisation perspective, Hollyoake said there is much more pressure on collateral management, increased capital requirements is driving the need for better transparency and collateral mobility, firms are scrutinising the true end-to-end cost of doing business, understanding the most cost effective way to trade and with whom.

Firms are seeking new ways to generate revenue, shifting from ‘vanilla securities lending’ toward securities finance, bringing more optionality. Retail lending too is an area of focus. Hollyoake added: “We have retail inventory being brought to the market. There’s an increase in the number of firms looking for platforms to solve for the aggregation and subsequent allocation of assets.”

Joining in from a regulatory perspective, Dean Bruyns, executive director, global head of pre-sales, S&P Global Market Intelligence Cappitech, highlighted the upcoming, and potentially compromised US Securities and Exchange Commission (SEC) 10c-1 regulation facing market participants this year.

10c-1 is essentially securities lending regulation in the US, an initiative which shares similarities with the Securities Financing Transactions Regulation (SFTR) with 71 per cent of the fields in 10c-1 already covered in SFTR.

Discussing the regulation’s compromised position, Bruyns explained:

"There's been a change since Donald Trump came into power, a change in administration has essentially paused some upcoming regulations, including 10c-1. At the moment it is due to go live on 2 January 2026, and everyone has to keep the pressure on and keep building despite the potential for delay or cancellation."

With uncertainty facing this regulation, Bruyns indicated that a potential extension to a September go-live date seems to be the most likely outcome. But there remains even more uncertainty.

"If anybody lends a security which is either CAT, TRACE, or MSRB eligible, then it's reportable under 10c-1 — the unknown eligibility factor at the moment is that it's not entirely clear whether one of the counterparties to the trade need to be a US entity for the transaction to be in scope. Most firms we speak to in Europe think they're going to be in scope regardless of where they or their counterparty are based. If they lend in those securities, they're caught," he clarified.

As the panel came to an end, Bruyns provided a piece of advice for in-scope firms. He suggested participants not "bury your heads in the sand", and encouraged those potentially affected to complete security and gap analysis to "get ahead of the curve".

Geopolitics drives change in the global regulatory agenda

More than ever, financial services legislation is being heavily influenced by geopolitics across the globe, according to Farrah Mahmood, director of regulatory affairs at the International Securities Lending Association (ISLA).

2024 was a significant year in which several countries held elections, resulting in a shift in political sentiment across all regions.

Speaking at the 2025 Annual Conference on Asian Securities Finance, held by PASLA in Macau, panellists discussed the core themes for the year, as well as significant market movements in South Korea and China.

Opening up the panel, Mahmood noted that the shift in political sentiment has caused an increase in fragmentation within the regulatory landscape — this has led to a rise in cost and complexity for international firms.

"With the outcome of the US elections meaning a second Trump term, there's heightened risk that key jurisdictions are going to start to move towards more national, protectionist type measures, and to an extent, we're already seeing that play out in trade disputes," Mahmood warned.

For trade associations, Mahmood indicated that both PASLA and ISLA will need to play a larger role in advocating on behalf of the securities finance market.

> "We need to make sure that underlying retail clients are well educated about the product and are aware of the associated risks involved with that."

In terms of global themes, competitiveness, operational resilience, and the retail space were named as the three largest focuses for the market.

The EU and the UK have extensive competitiveness agendas, Mahmood explained, both with fairly new governments which look to simplify and consolidate rules that are already in place as part of their new mandate, rather than expanding the current rule book.

While the Middle East has significant growth agendas such as the Saudi Vision 2030 — focused on foreign investment and deepening liquidity — in the US, President Trump is looking to deregulate across multiple industries such as with digital assets, crypto and sustainability.

Following a cyber attack last year on one of the market's trading platforms, Mahmood noted an increase in similar incidents across multiple different industries, including financial services. As a result, there is a "huge focus" from regulators on the reliance of critical third parties, particularly where several firms are dependent on a small group of providers.

Moving forward to the third theme of the year, Mahmood said that the UK's move to introduce consumer duty rules in 2023 "set the stage" for other global regulators focusing on increasing investor protection rules.

She advised: "We need to make sure that those underlying retail clients are well educated about the product and are aware of the associated risks involved with that."

Attendees of the conference also heard from Jisuk Kim, senior foreign attorney at Kim & Chang, who discussed movements in South Korea with the upcoming lift in its short sell ban, which is expected to come into effect on 31 March.

The short sell issue started back in 2021 from the amendment of the law strengthening the penalties for breaches in the short selling requirements and the government's investigation over short selling practices of foreign institutions, amid vocal retail challenges against short selling by institutions, she explained.

"The implementation of the internal control at the institutional level will be a prerequisite to engaging in short selling upon lifting of the short sale ban, and this is going to be a key factor."

Following investigations into short sale and stock borrowing and lending practices of foreign investors investing in Korea, Kim explained that penalties for short selling breaches have become stricter. "In fact, the supervisory authority imposed a quite significant unprecedented amount of penalties. Also, intentional breaches in the short sale requirements can be subject to criminal liability."

On the retail side, there have been complaints about not gaining equal opportunity with institutions, and the regulations have been amended in an effort to level the playing field, she noted.

Kim added: "Internal control requirements have become very prescriptive on the part of all players in the market. The implementation of the internal control at the institutional level will be a prerequisite to engaging in short selling upon lifting of the short sale ban, and this is going to be a key factor going forward for anybody that wants to enter the short sale market."

To help monitor short selling operations, Kim mentioned the development of a naked short sell detection system by the country's stock exchange, which "is the first of its kind in the world".

Kim believes there will be plenty of time spent this year in preparing to comply with the new requirements in order to engage in short selling in the market.

It was also recently announced that Korea would release the RFI regime, which allows financial institutions to access the Korean foreign exchange market from offshore by registry.

Kim said: "More players are now going to be able to participate. It was only banks and securities markets, but now insurance companies can do that also. Foreign RFIs will now be able to trade directly between each other.

"Custodians will be able to open up FX trading accounts to cater to their foreign clients interests. That's an area that is going to be pretty big for foreign investors to watch."

Adding to the opportunities in APAC, China saw the recent introduction of Bond Connect offshore repo, which allows offshore participants to repo onshore bonds held by them via Bond Connect.

China has the second largest bond market globally. With the introduction of Bond Connect repo, there is a possibility to use onshore bonds for financial transactions.

While there are opportunities globally for the securities lending market, participants will be keeping a close watch on the changing regulatory landscape.

Retail lending on a global scale

A discussion on retail lending in Macau left one panellist asking: "Why should institutional asset owners have an exclusive right to this income stream that should be democratised across everyone that owns an asset?"

The participation of retail investors in the financial markets is highly regulated according to Stuart Jarvis, head of strategic partnerships at Sharegain, who explained that extending SBL to retail can prove challenging due to the need to ensure that regulatory compliance is aligned with standard securities lending transaction practices.

“I love the expression of Wall Street to Main Street. That's exactly what it is — we're bringing practices that have been around for a long time and have benefitted institutions, to retail, to Main Street,” Jarvis highlighted.

The ‘Retail and Private Wealth: Unlocking value through Securities Finance’ panel was moderated by Darren Measures, head of securities finance at Maybank Securities. It discussed the retail lending landscape in the US, Europe, and APAC.

In Europe, retail ownership has grown massively as it has globally, according to Jarvis. For example, Germany has seen a 50 per cent growth in the number of retail brokerage accounts over the last three years.

He explored: “If we look at Europe holistically, we’re probably doing it a disservice because the knowledge level, the participation level, is actually very nuanced. If you look to the Nordic markets — Sweden for example — 35 per cent of households are designated retail investors, they have retail investing accounts. Whereas in the UK, for example, that figure is under six per cent.”

Reviewing this, Jarvis suggested that it reflects both the financial literacy and knowledge levels within respective countries and feeds the willingness to adopt new products. He continued: “It's no surprise that the Nordic region was the vanguard of bringing the retail lending product to Europe, but we are starting to see that spread across the 27 markets.”

While the UK has introduced a framework for retail lending, there remain challenges. Jarvis noted that, currently in Europe, retail lending is only active in 12 jurisdictions. Europe has “taken a lot of steps to follow the US”, but there are still significant steps ahead.

Moving forward in the discussion, Measures asked panellists why now was the time for retail and private wealth lending. The most important aspect seemed to be the shift in demographic in retail participation in financial markets.

Gen Z are investing a lot earlier than previous generations and follow different sources for investment advice compared to previous generations, with the use of social media affecting their asset ownership.

“The Gen Z generation is due to inherit US$83 trillion worth of wealth over the next 20 years, with 18 trillion of that coming in the next five years. So the importance of that segment, satisfying it, and bringing product to that segment is massive,” Jarvis confirmed.

> **“Prime brokerage mandates from hedge funds are being rewarded on the breadth of the availability being shown. Changing the supply dynamic to match this demand is crucial.”**

The panel also heard that the broadening of asset demand has played a significant role in the growth of retail lending. For instance, Jarvis noted quantitative strategies within the hedge fund world as a key driver on the demand side. He also sees a “massive growth” in the demand for access.

Institutional asset owners and investors are constrained by many aspects that retail is not, such as investment committees, tracking targets, and liquidity constraints. The impact of that, according to Jarvis, is that the breadth of assets owned by these institutional investors is often far narrower than that owned by retail investors.

“Prime brokerage mandates from hedge funds are being rewarded on the breadth of the availability being shown. Changing the supply dynamic to match this demand is crucial,” he concluded.

The road less travelled

Daisy Smeaton, director of repo product management at Tradeweb, speaks with Daniel Tison about her experience as a young professional entering the industry straight from school, and the importance of being supported by a network of mentors

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

My route into the securities finance industry was different to a lot of my peers, as I decided not to go to university and instead jump straight into beginning my career. The fast-paced world of financial markets and technology, and how it impacts our everyday lives, was always an area that interested me.

This led me to join Tradeweb as a desk assistant in 2014, supporting different teams across the company with administrative tasks, client onboarding, or any other functions where I could be of help. From there, I moved into several different roles across different product areas, before taking on my current role in the repo product team.

I am fortunate to have been given a chance at just 18 years old by a company that prioritises recruiting from a diverse pipeline of talent, which includes those from different educational backgrounds.

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

In my nearly 10 years in this industry, I have seen the repo market undergo significant change and grow massively to where it is today. However, there still remain many pockets of the repo market that rely on voice trading, and I find the challenge of building out our product offering, tapping into new markets, and bringing new clients and dealers onto the platform to be the most exciting aspect of my role.

I spend a lot of time with both our buy and sell side clients to understand their pain points and how Tradeweb can bring greater time and cost efficiencies to their workflows. I have always been an outgoing and sociable person, so the relationship side of my role is something I particularly enjoy.

Our most significant product launches and enhancements have often started from an informal conversation with a client, where they might mention a challenge they currently face, and then we go talk to our technology teams about how to develop the right solutions that help address them. Instead of pinpointing one project that has been especially rewarding, for me what matters the most is getting to see the real-world impact of all these conversations and hard work, both externally and internally, on the electronification of repo trading.

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

Tradeweb has always encouraged employees to pursue their interests and, therefore, strives to provide opportunities for individuals to explore and learn different areas of the business. This is why many employees entered the company in one team and then went on to transition to an entirely different part of the business. I would not have been able to get to where I am today if I was not given the opportunity to move around internally, and for the emphasis that Tradeweb puts on our own professional development and career growth.

Tradeweb also has in place a global mentoring programme, which has helped me learn so much from some of the company's senior executives. I believe having a mentor is so important for young professionals in this industry, especially in my case. Even without having much prior experience, I was able to benefit from a strong support system that helped me to navigate the work environment.

As well as being a mentee, I have also made it a priority to share my experience choosing a less conventional path into financial services with those just beginning their career. I know first-hand how overwhelming it can be for young people trying to enter this industry, so passing on my knowledge and providing any guidance that I can is really important to me.

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

A common misconception about working in financial services is that you need a certain kind of academic background. As my own career path has demonstrated, young people should not be discouraged from trying to enter this industry even if they do not fit the traditional candidate criteria. Bill Gates, Steve Jobs, and Oprah Winfrey, for instance, never got a university degree, but still managed to become hugely successful in their respective fields.

As the saying goes, our strength lies in our differences, not in our similarities. What sets Tradeweb apart is that it recognises the importance of having a diverse workforce that brings various perspectives together, and all companies should ensure they are giving equal opportunities and chances to all young people.

Another misconception is: “If it ain't broke, don't fix it”. If the growth of electronification has taught us anything, it is that change can be good, and just because it has not been done before does not mean we should not give it a try. Take the institutional repo market, for example, an industry that has been long dominated by voice trading, with all its inherent inefficiencies. After a lot of hard work and technological innovation, today electronic trading tools form an invaluable part of investors’ repo toolkit.

We should continue to challenge existing processes and push the boundaries to find new ways to transform digital workflows. However, we should do so in close collaboration with our clients and the broader industry. Our goal is not to disrupt, but to enhance repo execution.

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

If I was asked that question when I first started my career, my answer would have been completely different compared to this moment. While I have no fixed plans, I would like to spend more time travelling and helping to expand our business, while simultaneously growing the relationships I have in this industry.

The repo market is at this exciting inflexion point where electronification can only continue to proliferate and reach new markets around the world. In this type of role, a strong professional network really means everything and there is so much value in meeting face-to-face.

In terms of specific skills or experiences, I would like to focus on broadening my remit and getting into new securities financing product areas. I have always liked a challenge, and there is so much more we can do to digitise these more nascent markets.

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

Do not be afraid to go after opportunities and ignore that tiny voice in your head that might say: “You can’t do this.” If my career path can teach young professionals anything, it is that everyone’s journey looks different, and I would not have reached the place I am in today if I did not take risks and seek out new challenges and projects to be involved in, while also being eager to learn from those around me.

Additionally, having a strong support network of mentors, both formal and informal, is so important in helping newcomers to successfully navigate some of the challenges they might face in their career. I strongly recommend that individuals reach out and connect with their more senior colleagues who could add value to their professional development.

Daisy Smeaton

After obtaining her A Level qualifications at Brentwood School in Essex, Daisy Smeaton joined Tradeweb as a desk assistant in 2014, and has since quickly moved up the career ladder, holding various positions in product management and implementation. Now a member of the Repo Product Management team in London, Daisy supports the development of the entire suite of products available on the firm’s repo platform.

Valentino joins S3 Partners

S3 Partners has onboarded Chris Valentino as director of sales and business development.

Based in New York, Valentino brings nearly three decades of experience in financial services to his new role at the fintech firm.

Most recently, he served as director, head of North American sales, at EquiLend, which he left in November 2024.

Prior to that, he was chief revenue officer, global head of sales and account management, at Stonewain Systems and previously at Trading Apps.

Between 2006 and 2010, Valentino worked at JPMorgan Chase as vice president of sales and relationship management.

Müller steps down

Erik Tim Müller, CEO of Eurex Clearing, has informed the supervisory board that he will not serve another three-year term after March 2025.

After nearly three decades with the firm, Müller will leave Deutsche Börse Group by the end of 2025 to pursue new entrepreneurial opportunities.

He says: "It's been a great honour to help shape the successful development of Deutsche Börse Group and Eurex in different leadership roles. Thank you to all colleagues, clients, partners and regulators for your continued support."

Müller joined Deutsche Börse in 1997, taking over Group Treasury and Investor Relations after the IPO in 2001.

He then became a managing director for corporate strategy, as well as mergers and acquisitions.

Since 2013, he has been a member of the executive board of Eurex Clearing and a member of the Eurex Deutschland Management Board.

Pasqualoni departs FIS

Jim Pasqualoni has left his position as senior director of product management at FIS after spending more than 15 years with the company.

In his recent role, Pasqualoni was responsible for directing the product development roadmap for the Loanet trading and inventory management, as well as fully paid lending solutions within the FIS Loanet suite of securities finance solutions.

Prior to FIS, he spent more than 13 years at Goldman Sachs Agency Lending – ending his tenure there as vice president of operations.

Between 1992 and 1996, he worked as an analyst of operations at State Street Bank.

Pasqualoni says: "Feeling refreshed and invigorated, I am now searching for new opportunities in the securities finance and associated vendor industries.

"Having spent my entire 32-year career in securities finance in Boston and London, I have a wealth of knowledge and experience to offer."

Hazeltree selects Seth

Hazeltree has appointed Lokesh Seth as chief executive officer.

Based in New York, Seth brings more than two decades of experience in technology and analytics to his new role.

This includes president and chief operating officer roles at Intapp and DealCloud, where he orchestrated a growth trajectory from US$2 million to over US$200 million in annual recurring revenue (ARR) over seven years.

Earlier in his career, Seth led iLevel, a Blackstone spin-off, as chief technology officer.

Since April 2020, he has been a board member at Decusoft, specialising in compensation management solutions and analytics.

He has also been an investor and advisor at Angel Round Capital Fund for more than nine years.

Wilson joins Transcend

Paul Wilson has joined Transcend after more than seven years at Broadridge, where he most recently served as sales director, EMEA.

Wilson's career spans over 17 years, across various senior positions. Before coming to Broadridge, he was head of clients at Sharegain, prior to which he saw eight years at 4Sight Financial Software — first as a senior sales consultant, then later as product director.

Here he was responsible for global sales and product development for 4SF Repo, securities borrowing and lending, collateral management, and swap solutions.

Last year saw a number of moves for Transcend, including the departure of Jonathan Hodder, who left his role as director of sales for EMEA in September 2024.

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