

ISLA 30





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Welcome to ISLA 30

It gives me great pleasure to welcome you to this special publication to mark the ISLA 30th Securities Finance & Collateral Management Conference. It has been 31 years since a small group of like-minded individuals met in Gleneagles, Scotland, to discuss the matters of the day for what was, for many, a new and developing industry. By any standards, the industry we see today bears little resemblance to that of three decades ago, although the basic premise that securities finance is the oil that makes markets work more efficiently has not changed — and this is probably more important than ever.

As I look back on the industry that I am proud to represent, I am struck by several consistent themes that transcend the years and perhaps shape who we are as individuals and the community we are a part of. The first is innovation, where our markets have always been prepared to pursue new and novel opportunities that reflect the changing needs of those we serve. Many of you will recall the dominance of seasonal trading in various lending programmes that have all but disappeared today. Instead, programmes, among other things, are actively used to mobilise collateral in the context of meeting obligations under uncleared margin rules for derivatives, or to deliver high-quality

liquid assets (HQLA) into the market to allow prudentially regulated entities to meet their regulatory obligations under the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

A second area that I wish to highlight is how our markets have embraced collaboration, particularly in the context of the post-financial crisis regulatory agenda. People often ask me to identify moments in our history that have changed our industry. For me, the Securities Financing Transactions Regulation (SFTR) and, in particular, the need for dual-sided reporting, has forced our community to work together in ways we had not seen previously.

As I think about what our markets will look like in the future, it is always hard to predict the details. Regulatory-driven changes will bring new challenges for all of us and digitalisation will fundamentally change the way we think about settlement. I am confident that, as an industry, we can rise to these challenges and continue our long history of innovation and effective collaboration.

Andrew Dyson, chief executive, ISLA

for collaboration on data modelling for a range of business use cases, for example carbon credits for energy projects and data lineage of digital assets.

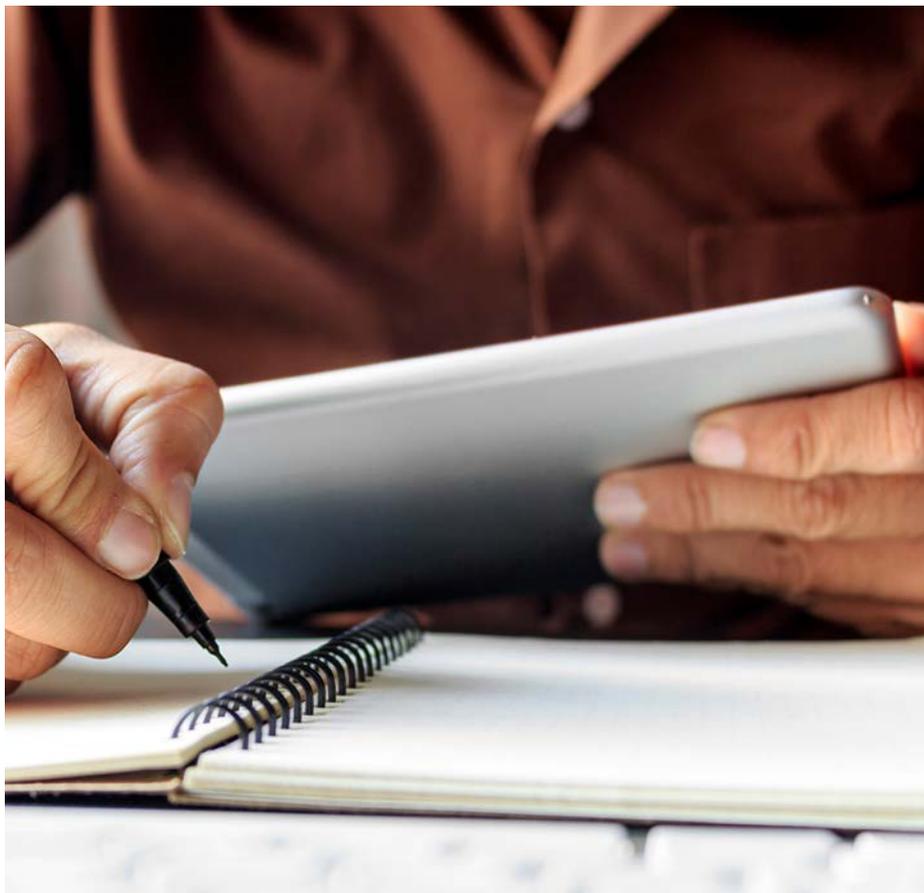
“We have a successful track record of model development using Legend at FINOS and we are fully committed to establishing an operating model that incorporates both Legend and Rosetta [a language and tool set developed by REGnosys] in the CDM modelling process,” says Ian Sloyan, ISDA’s senior advisor, data and digital solutions and a co-lead of the FO SIG.

At a Open Source in Finance Forum in New York at the end of 2022, ISDA released its Digital Regulatory Reporting (DRR) live in production with one of its association members using code developed using the CDM to meet regulatory reporting obligations under the US Commodity Futures Trading Commission’s (CFTC’s) revised swap data reporting rules.

“Seeing a highly competitive industry like financial services coming together to embrace the open source development model for something as transformational as the CDM is a pivotal moment for our Community,” said Gabriele Columbro, executive director at FINOS and general manager of Linux Foundation Europe.

“Open source collaboration goes way beyond code and the contribution of the CDM is a testament to the relentless work of our contributors that paved the way for the creation of a truly open data ecosystem for this industry.”

The FINOS CDM Contribution Review Working Group commenced its activities on 14 March 2023.



ISLA releases new GMSLA templates

14 March 2023

The International Securities Lending Association (ISLA) has published new templates for its Global Master Securities Lending Agreement (GMSLA).

Accompanying the 2000, 2010 and 2018 versions of the documentation, the ISLA Documentation Subgroup in collaboration with Linklaters have released four new templates.

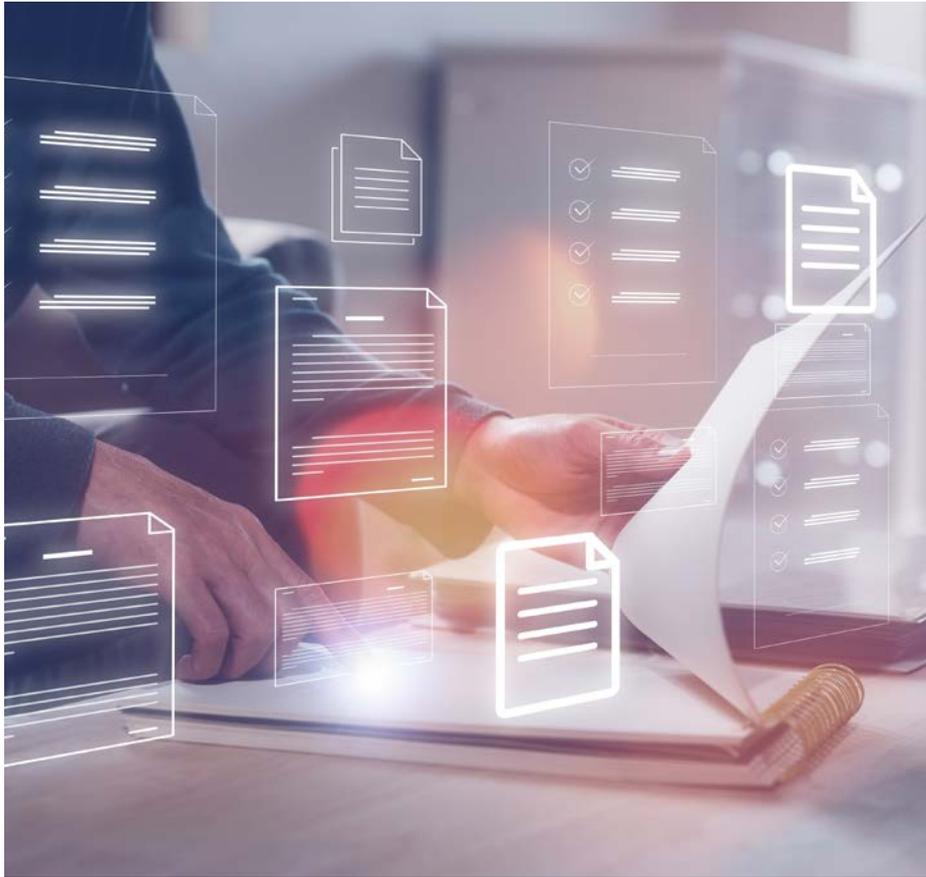
The new templates are Mini Close-Out Notice, Default Notice, Termination Notice and Amendment Agreement.

The templates have been produced to provide a point of reference for parties who

have not otherwise developed their own, the Association says.

ISLA states that it does not seek to create any new standard, or to change existing practices. Use of the templates is not mandatory and parties may adapt the templates as required.

The Association’s working group, ISLA Document Digitisation Working Group, is currently focusing on digitising the GMSLA — concentrating initially on integrating business outcomes from the Association’s Clause Library and Taxonomy into the Common Domain Model (CDM).



Association publishes 2023 GMSLA netting opinions

14 April 2023

The International Securities Lending Association (ISLA) has released 2023 netting opinions to support the Global Master Securities Lending Agreement (GMSLA) relating to transfer of title-based securities lending transactions.

These opinions are accessible to Association members that subscribe to its nettings opinions service.

The ISLA Master Confirmation Agreement (MCA) has been extended to cover an additional 10 jurisdictions, offering a standard legal framework and set of trade terms that can be applied for “non-standard”

trade types including evergreens and extendables.

The coverage provided by these netting opinions has been widened to embrace Taiwan, Malaysia and South Korea annexes to the 2010 GMSLA, which were developed by the Pan Asia Securities Lending Association (PASLA) and have been adopted by ISLA. These are available through the ISLA and PASLA websites.

ISLA's legal opinions service now extends to 64 jurisdictions and is updated annually through a joint exercise with the International Capital Markets Association.

Tokenisation could revolutionise the industry, says new paper

20 April 2023

The International Securities Lending Association (ISLA) has released a new paper which takes a ‘deep dive’ into tokenisation from the perspective of securities financing markets.

Entitled ‘Commercial Opportunities & Practical Considerations for Tokenisation for the Securities Financing Market’, the Digital Assets in Technology paper is part of ISLA's Asset by Asset series.

The series is produced in conjunction with members of the Digital Asset Working Groups (DAWG), which was established by member request in May 2022, to discuss all topics associated with expansion into new digital asset classes.

In the new paper, ISLA discusses the use case of using tokenisation as a way of ‘securitising’ certain fund structures. Further, it explores how tokenising assets can open up multiple opportunities for the industry, especially in respect of the collateralised leg of the trade.

ISLA highlights a number of key considerations, including increased mobility of trapped assets and accessibility to investors for illiquid assets, the ability to optimise asset utility across fragmented asset pools, and reduced operational processing timeframes.

In addition, the paper recognises the reduction of delivery risk through a combination of tokens with smart contracts, improved supply chain transparency including ESG markers, and the transfer of

contractual rights of a transaction separately to the assets themselves.

The use of tokenisation across financial services has been steadily growing, with the Value Exchange reporting over US\$1.3 billion in live digital debt issuance as at March 2023. This value is expected to grow exponentially in the years to come, according to the paper.

ISLA stresses that “realising the full potential of tokenisation will require firms to look very closely at the legal structuring of any venture to ensure viability and that the solution will achieve the intended business outcome”.

Tokenisation provides a chance to revolutionise the securities financing industry alongside the wider capital market ecosystem, according to ISLA's paper, providing it is implemented with the correct attention to due diligence, investor protection, control and risk management.

David Shone, director of digital affairs at ISLA, says: “The tokenisation paper highlights key areas of conversation around tokenisation using distributed ledger technology that have an impact on securities financing.

“Education, awareness and a forum to discuss risks and opportunities of new technology is core to what ISLA offers its members through our digital workstreams, and this paper will hopefully encourage further exploration within our Digital Asset Working Groups.”

GASLA releases update to Global Framework for ESG and Securities Lending

07 March 2023

The Global Alliance of Securities Lending Associations (GASLA) has released an

update to the Global Framework for ESG and Securities Lending (GFESL).

The initiative reflects GASLA's commitment to provide market participants with a practical framework for evaluating securities lending in the context of financial institutions' ESG policies.

The updated version, developed in collaboration by the five member associations of GASLA, equips the industry with a global perspective on the intersection of securities lending and ESG considerations.

The 2023 GFESL updates the first version of the framework, which was released by the Pan Asia Securities Lending Association (PASLA) and Risk Management Association (RMA) in May 2021 with the support of the International Securities Lending Association (ISLA).

This provided the first practical guidance on how securities lending market participants could approach ESG issues in their businesses.

It provides insight into key considerations across the five main touchpoints between securities finance and ESG: voting rights, collateral, lending over record dates, facilitating participation in the short side of the market and transparency in the lending chain.

The GFESL also offers commentary on the legal and regulatory context for each touchpoint as well as practical guidance for lenders.

Andrew Dyson, CEO of ISLA, says: “ISLA, along with our sister associations, understands the importance of developing a global approach to ESG, to support the role that securities lending plays in our markets, while adapting to ESG considerations.

“I firmly believe it is the role of industry bodies such as GASLA to identify the challenges that members face and help drive solutions, through advocacy and engagement with regulators and our members, towards development of market practice standards.”

Trade associations respond to PRA Basel Consultation

04 April 2023

Derivatives and securities finance industry associations have published responses to the Prudential Regulation Authority (PRA) consultation on Basel 3.1 implementation.

The International Swaps and Derivatives Association (ISDA) and the Association for Financial Markets in Europe (AFME) issued a joint response to the PRA consultation paper 16/22 on 31 March.

The associations indicate that the Basel 3.1 capital framework is a necessary element of protecting financial stability but they warn against “disproportionate capital requirements” that may impact a bank's ability to provide key financing, liquidity, hedging services and a wider range of products to end users.

According to aggregated cost benefit analysis conducted by the PRA, the PRA's proposed rules outlined in CP 16/22 would require banks to raise an additional 3.1 per cent in Common Equity Tier 1 (CET1), equivalent to £14.2 billion across all firms falling into scope, compared with a baseline where the provisions detailed in the consultation paper are not implemented.

The PRA's cost estimates predict that total capital, including CET1, Additional Tier 1 capital and Tier 2 capital will rise by 3.1 per



ISLA releases template clause for Austria

17 April 2023

The International Securities Lending Association (ISLA) has published a new Austrian template to accompany the 2010 and 2018 versions of the Global Master Securities Lending Agreement (GMSLA).

It follows a requirement from ISLA members to produce a standard form template clause to assist market participants when lending and borrowing Austrian securities, as a result of an Austrian Ministry of Finance publication in November 2022.

The publication was titled 'Information on Levying and Refunding of Austrian

Withholding Taxes on Dividends received by Taxpayers with Limited Tax Liability (Non-Resident Taxpayers) from Public Limited Companies'.

The newly released ISLA template is for use with the GMSLA 2010 Title Transfer and the GMSLA 2018 Pledge agreements.

This wording was drafted by members of the ISLA Tax and Legal Steering Groups and reviewed by Freshfields Bruckhaus Deringer LLP. The wording can be used as an additional provision in new GMSLAs, says ISLA, or as an amendment to legacy ones.

cent, or £19.7 billion, across all firms falling into scope.

Additionally, total operational compliance costs associated with these changes will be close to £4.9 billion, the largest share resulting from changes to the market risk framework, at £3.8 billion. These costs, the associations indicate, will be borne mainly by the large banks.

In responding to the PRA consultation, ISDA and AFME put forward recommendations which they intend should maintain global connectedness by supporting the role of the UK as an international financial hub.

This should also encourage appropriate risk-calibration under the Basel framework which aligns with international standards, but which permits adaptations to reflect "regional specificities". They note that, post-Brexit, the UK has the ability to write its own rules independently in line with the provisions of the Financial Services and Markets Act of 2000 and the Financial Services Act 2021.

In a separate response to PRA CP 16/22, the International Securities Lending Association (ISLA) focuses on Question 8 in the CP relating to the proposed approach for unrated corporates.

ISLA indicates that it supports the introduction of a move to a more risk-sensitive approach to unrated institutions, but raises concerns that a significant increase in capital costs under the new output floor may "inevitably cause the activity of securities financing to become uneconomical", potentially resulting in a decline in this activity and a reduction in liquidity across the capital market.

“This effect will be most noticeable in the case of low risk, financially sound but unrated institutions which is where a majority of the supply for SFTs in Europe derives from.” This, the Association believes, will drive up costs for low-risk entities such as pension funds and mutual funds.

The PRA’s proposed approach will allow exposures for firms rated as Investment Grade to be risk-weighted at 65 per cent, but for firms classified as Non-Investment Grade to be risk-weighted at 135 per cent.

Drawing on data from ratings specialists S&P Global and Credit Benchmark, ISLA indicates that the average credit quality of funds that lend securities in Europe are mostly “of the highest credit quality”.

Given that ratings are typically used by issuers of securities to raise capital, many mutual funds and pension funds may be unrated because they do not raise capital through issuing securities and have little requirement for an external credit rating.

However, ISLA fears that the proposed changes may unduly punish securities loan trades where these entities are the lender — potentially resulting in a rise in risk weight for these types of counterpart from 12.5 per cent to 65 per cent.

This may result in borrowers — predominantly banks and broker-dealers — reducing their borrowing from these ‘unrated counterparties’. Alternatively, borrowers may seek to pass this increase in the aggregate cost of trading through to the counterparty, which may render securities lending activity increasingly “uneconomic” for many pension fund and mutual fund lenders.



CSDR penalties “bigger than expected”, says BoE Securities Lending Committee

30 January 2023

The November meeting of the Bank of England’s Securities Lending Committee (SLC) observes that CSDR settlement fines are “bigger than expected” and “are not washing through the system as easily as anticipated”.

Following on from dialogue in the Bank of England’s December Money Markets Committee, the November meeting of the SLC reflected on the “high” level of settlement fails in the securities lending industry and the rise in settlement fails following the September UK mini budget.

The Committee noted that this problem

has existed in the industry for years and that Central Securities Depositories Regulation (CSDR) penalties – introduced with enactment of the CSDR settlement discipline regime in February 2022 – have not resulted in a significant improvement so far.

SLC members indicated that improvements in technology are likely to have the greatest impact in addressing this problem since the industry continues to be held back by its “reliance on rigid archaic systems”.

This issue was given detailed consideration in a panel at the ISLA post-trade conference in

London on 1 November 2022 and at the Securities Finance Times Technology Symposium three weeks later.

The Committee received a presentation on tokenised collateral and discussed the potential that tokenisation offers for reducing collateral fails. It noted that the primary constraint to date has not typically been the technology, but rather the regulatory and legal uncertainty around this form of ownership which has created challenges from a compliance standpoint.

ISLA has also been conducting research into the complexities relating to transfer of legal ownership and legal certainty of new owner records when working with tokenised assets.

More broadly, the Committee discussed the continuing impact of the UK mini-budget, and related rise in gilt yields and market volatility, on securities lending markets. The Committee noted a greater number of queries from asset owners during the liability-driven investment (LDI) crisis as they reassessed the flexibility that their lending contracts gave them to recall securities. This prompted some beneficial owners to temporarily cease lending, according to the SLC minutes.

The gilts sell-off also triggered a rise in enquiries from LDI funds that are seeking to review their funding arrangements. One consequence is that some funds are exploring opportunities to access funding through peer-to-peer (P2P) channels, alongside their existing arrangements.

The Committee considered the capital cost for agent lenders of providing indemnification for lenders in securities lending transactions, indicating that some agent lenders had “decreased business”

owing to the significant capital cost that they bear, commonly estimated to be around 13bps, in providing this indemnity. Consequently, the Committee indicated that the provision of indemnification by agent lenders might be expected to become less prevalent in the future.

Evaluating the potential impact of Basel IV capital adequacy provisions on securities financing transactions, some members of the committee stated that the EU stance on implementing output floors may raise the capital overhead for corporate and buy-side clients – particularly unweighted corporates, pension funds, sovereign wealth funds and mutual funds – penalising borrowing from unrated EU-based funds and potentially motivating borrowers to source securities through alternative channels, including funds based outside of the EU.

ISLA has proposed use of 60 per cent risk-weighted assets (RWA) for unrated counterparties rather than 100 per cent RWA – and has suggested that banks should be allowed preferential risk weighting until 2023. It also recommends using international standards to identify whether trade counterparties have sound access to liquidity.

The SLC indicates that these constraints are likely to trigger further discussion on use of central counterparties to provide greater capital efficiency in lending arrangements, along with use of credit benchmarks to alleviate risk weighting.

Reflecting on the Basel framework, the Committee noted greater use of pledge-based collateral over time, with data from Securities Financing Transactions Regulation (SFTR) reporting indicating that, for June 2022, 16 per cent of EU collateral was under pledge –

up from 12 per cent – and the corresponding figure was 18 per cent for the UK.

Reflecting on activity through securities lending markets over the preceding year, the SLC concludes that 2022 was a “satisfactory year” for securities lending, with DataLend reporting record volumes – although the Committee noted a contraction in demand for GC gilts over the period.

ISLA responds to FCA consultation on sustainability disclosure

27 January 2023

The International Securities Lending Association (ISLA) has published a response to the Financial Conduct Authority’s (FCA’s) consultation on sustainability disclosure requirements.

This response engages with content of the FCA’s CP 22/20, Sustainability Disclosure Requirements and Investment Labels, issued in October 2022. Among the discussion points raised in the CP, the FCA calls for industry feedback relating to the role of securities lending and short selling in the context of sustainable investment.

ISLA’s response, signed by the Association’s director of regulatory affairs Farrah Mahmoud, seeks to clarify and reiterate key messages relating to securities lending best practice and to respond to concerns raised by respondents to the FCA’s earlier discussion paper 21/4 of January 2022.

First, it responds to a concern advanced in industry feedback to DP 21/4 that “by engaging in securities lending an investor would be unable to exercise their voting rights and hence fulfil their stewardship objectives effectively”.

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ISLA indicates that the practice of securities lending should never impede an investor's ability to vote. Recalling securities for voting is common practice, it notes, and the right to do so is a standard feature of industry contractual documentation.

The Association confirms that lenders should have an enterprise-wide investment policy in place regarding stewardship and voting and that this policy should specify the parameters for proxy recalls.

ISLA also engages with concerns raised in the DP 21/4 consultation that "by lending, an investor may facilitate the short selling of securities issued by companies that they consider to have strong sustainability credentials".

The association observes that there is often a misconception that ESG considerations "can only be incorporated into a long-only buy and hold investment strategy". In response, ISLA highlights that short selling can also contribute to positive sustainability outcomes.

In doing so, it refers to the work of the United Nations, Principles for Responsible Investment working group, which specifies that 'shorting can be one way to express the view that an entity, security or asset is mispriced and not adequately incorporating ESG factors or systemic risks into its business activities, governance structures or future scenarios'.

Third, with regard to application of sustainability screening for assets accepted as collateral in securities lending transactions, ISLA advises that in the absence of clear regulatory guidance, there remains "a lack of clarity and consistency in the market" on the

extent to which ESG policies should apply to received collateral.

With this in mind, ISLA requests policy guidance from the FCA on whether collateral should integrate the same level of ESG screening as a fund's long portfolio or, alternatively, whether eligible collateral guidelines should intentionally apply broader and more liquid parameters to manage risk.

"While it is recognised that all fund assets must embed ESG criteria," ISLA notes, "it should be noted that collateral does not form part of the funds' assets."

"Equally, irrespective of whether the fund's long portfolio ESG policies are applied to collateral, it will be essential to embed sustainability into the acceptability framework for collateral as a matter of good risk management under emerging prudential requirements such as Basel 3."

Additionally, ISLA addresses concerns relating to the identity of counterparties in back-to-back transactions, "given that some lenders may not wish to enter into transactions with parties that do not share their values and standards".

ISLA points out that although agent lenders, acting on behalf of the underlying lender, may conduct due diligence in selecting suitable borrowers, it is ultimately the underlying lender which must approve and conduct oversight over the borrower.

For title transfer transactions, the underlying lender will not typically have insight into which downstream firms are involved in onward lending transactions. However, in the UK the regulator will have information on transaction counterparties through reporting under the

Securities Financing Transactions Regulation (SFTR) and, where appropriate, reporting of net short positions under the Short Selling Regulation (SSR).

Referring explicitly to the securities lending implications of the sustainability disclosure proposal, the FCA has commented:

"Securities lending plays an important role in the market and provides investors with additional income. We do not consider securities lending as being incompatible with ESG, as securities lending arrangements can be tailored to meet the ESG objectives of the lending and borrowing parties. So, we are not proposing any specific constraint to the ability of strategies that involve securities lending to qualify for one of the FCA sustainable investment labels.

"As part of our implementation guidance, we are proposing that, where applicable, a firm should clarify its securities-lending policy and the steps it takes to ensure this is coherent with its sustainable investment strategy."

Andrew Dyson, ISLA's CEO, comments:

"We welcome the statements made by the UK regulator, and the Association looks forward to any future policy advice around the securities lending product."

The consultation period for FCA CP 22/20 closed on 25 January.

Through this initiative, the FCA proposes that all products that use a sustainable investment label, or that adopt sustainability-related features that are integral to their investment strategy, should provide additional pre-contractual product-level sustainability disclosures from June 2024. ■



ISLA™

ISLA AGM & 13th Annual Post Trade Conference

1 November 2023

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Lisbon low-down

ISLA conference co-chairs Brooke Gillman, managing director, global head of client relationship management at eSecLending, and Mark Richardson, head of trading at Zodia Markets, discuss the big talking points of this year's event and what they expect to see over the next 12 months

What can delegates expect from this year's ISLA Conference?

Brooke Gillman: This year's International Securities Lending Association (ISLA) conference will capture the modern evolution of our securities finance and collateral management marketplace. Our industry is at a very formative point in its growth and development.

Many major technology advancements have occurred, but many more are needed to achieve a level of operational efficiency from global market exchanges, settlement windows, regulators and transactional volumes.

Major sell-side and agent bank participants servicing our industry are under intense cost pressures due to regulatory capital constraints. The need for efficient trade structures and RWA-friendly credit counterparts has never been greater.

This year, the buy-side participants will come together to learn from each other and discuss best practices. ISLA's inclusion of these major asset owners in the agenda helps to move our industry forward and everyone benefits from hearing their voices in the conversation.

Nothing stands still in securities finance, and the shift in the agenda

— to address some of the major digital initiatives across our industry
 — will challenge all of us to think bigger. How can we change the way our businesses operate and what applications of technology will drive us toward the next year and beyond?

Mark Richardson: With up to 600 participants, including the majority from outside the UK, the conference is the pre-eminent networking opportunity within the European securities finance industry. The conference's agenda encompasses a wide spectrum of topics; it is particularly encouraging to witness the increasing prominence of digital assets and blockchain within the core agenda.

This year's conference has some great speakers on the agenda. What are you looking forward to most?

Richardson: The list of speakers at this year's conference, featuring individuals from the European Parliament and the Bank of England, is a testament to ISLA's excellence. Their participation enhances the event's prestige.

As Zodia Markets is one of the few digital asset specialists with membership to ISLA, I am pleased to see digital topics at the forefront of some discussions. I am particularly looking forward to the panel discussion on digitisation, where we will explore how the industry can leverage the substantial advantages of blockchain technology in the coming years.

Gillman: I am hosting the Wednesday sessions. It will be an honour and privilege to introduce Verena Ross, the chair of the European Securities and Markets Authority (ESMA).

Prior to chairing ESMA, Ross held numerous senior positions at the UK's Financial Services Authority and started her career at the Bank of England. Hearing directly from such an experienced and well-respected economist and banking regulatory supervisor will give conference participants a timely insight into what is driving the regulatory agenda and how our market fits in, supports and impacts the broader financial ecosystem in Europe.

What will be the big talking points at the event?

Gillman: Risk-weighted assets, balance sheet, cost of indemnification, collateral optimisation and mobilisation, treasury and collateral management, liquidity, volatility, tokenisation, digital assets, distributed ledger technology, Basel III/IV, the LDI crisis, the banking

crisis, diversity, equity, inclusion and so much more!

Richardson: Technology and tokenisation will be two of the big talking points this year. Operational efficiencies, cost saving potential and the transparency of tokenised securities are opportunities that the industry is only just starting to appreciate. Crypto assets are the first real-world demonstration of these capabilities, so the industry is looking to this asset class to help understand these transformational opportunities.

What have been the biggest challenges for the securities lending industry so far this year?

Richardson: Over the past year, the digital asset lending industry has experienced a period of remarkable turbulence and transformation. This was widely publicised in international headlines which highlighted the bankruptcy filings of numerous digital asset lending firms. In this context, Zodia Markets stands out as the sole bank-owned, Financial Conduct Authority-registered crypto brokerage and exchange worldwide.

By collaborating with ISLA, we are actively seeking to emulate the successful practices observed in traditional finance and adapting them for the realm of digital assets. Our objective is to establish robust frameworks and standards that promote stability, security and sustainable growth in this evolving industry.

Gillman: The industry has weathered many challenges over the past few decades, so at this point it almost feels as though we are prepared for everything and can handle anything. While the market volatility that returned this year has buoyed the securities lending industry, the regional bank crisis and bank failures in the US, and the subsequent failure of Credit Suisse, presented challenges.

However, the aforementioned has not been as impactful as some prior market crises. The UBS takeover of Credit Suisse quickly addressed potential counterparty risk in our market and eased any potential event of default concerns. The market continues to monitor counterparty credit and liquidity closely. However, potential further contagion has declined significantly.

What trends do you expect to see in the industry over the next 12 months?

Gillman: Beneficial owners, or buy-side participants, are evolving their



"I expect there will be more beneficial owners attending the conference than ever before. There will be more innovative

technology partners, solution providers and regulators learning from us so we can learn from them"

Brooke Gillman

Managing director, global head of client relationship management
eSecLending

macro view on the product. They are thinking about how securities lending, repo and collateral management can work alongside portfolio management function as financing solutions that are in direct support of their treasury and collateral management activities. I believe this trend will continue to bring a major shift to the buy-side community in the coming year.

This differs from a few years ago where a product was still siloed

and lacked strategic portfolio management oversight. Large beneficial owners are now viewing securities finance as one of their investment tools and, depending upon their goals, they are starting to use securities lending or repo as a means of financing and for purposes other than just earning incremental income on idle assets. This will support liquidity or leverage funding needs, or perhaps satisfy beneficial owner's shorting strategies and the need to borrow.

Asset owners are looking at securities financing from a 'big picture' perspective. They are using their assets in their portfolio management decision-making process for collateral funding trades, for example.

We will see more asset owners adopt this approach over the coming year and this will drive further growth in our industry. Market practitioners will also evolve their services to provide new solutions to buy-side institutions. The sell-side will look to match their own liquidity and balance sheet funding needs with asset owners interested in taking the other side of the trade.

Since the 2008 financial crisis, the impact of regulatory capital requirements has become greater. They are already directly impacting the buy-side community as well as overall market liquidity and trade opportunities.

The pending implementation of the Basel III/IV framework is forcing all market participants to pay attention. Agent and buy-side counterparts will need to adapt to new RWA-efficient trading structures, new methods of indemnification and new ways to view counterparty credit risk. The next 12 months will bring significant change in the market and all participants need to evolve and adapt to improve efficiencies and cost structures.

Richardson: As we look ahead to the coming year, the securities lending industry is poised to experience an upsurge in blockchain and digital asset adoption. Notably, regulatory measures will play a pivotal role, considering the mounting attention governments and regulatory bodies worldwide have been giving to cryptocurrencies.

We can expect continued efforts to establish regulatory frameworks such as MiCA in Europe. All eyes will be on the US. Furthermore, institutional adoption of cryptocurrencies will continue to gain momentum. Traditional financial institutions are actively exploring avenues to integrate cryptocurrencies into their offerings as they

continue to recognise the potential of these digital assets. This trend highlights a growing acceptance and recognition of the transformative capabilities of cryptocurrencies within the mainstream financial sector.

As we mark the 30th anniversary of the ISLA conference, what have been some of your favourite moments?

Richardson: I first attended the ISLA conference in 2005 and while the industry has changed significantly since then, it is great to see so many familiar faces returning this year. While I have made the move to digital assets, the fundamentals of best practice are the same for all asset classes. I am looking forward to reconnecting with the people who will help shape the future of prime brokerage and lending for the digital assets industry.

Gillman: I have attended numerous securities finance industry conferences over my 23-year history in this market, but I did not frequent ISLA's conference for the majority of those years. I always thought the event was more geared toward the sell-side and traders in our market — never for those such as myself who focus on the buy-side community. My view has completely changed. Attending ISLA is for all market participants.

The conference has been crucial for my continuing education on current industry regulations, demand trends, new products, competitive factors and best practices. It has also expanded my personal and business network and helped my company identify opportunities for its business.

The ISLA team and board has evolved the conference over the past five years and supported the wider development of our marketplace over its 30-year history. They have done a superb job expanding the depth of content shared throughout the event. In addition, they have expanded the reach of institutions and industry colleagues present at the conference.

I expect there will be more beneficial owners attending the conference than ever before, as well as more lending and borrowing counterparts. There will be more innovative technology partners, solution providers and regulators learning from us so we can learn from them. All of these participants help to drive our businesses forward.

Ina Budh-Raja from BNY Mellon and Harpreet Bains from J.P. Morgan had the uphill battle of launching a networking organisation in London at the start of the Covid-19 pandemic, so my favourite moment was



“The conference is the pre-eminent networking opportunity within the European securities finance industry. It is encouraging to witness the increasing prominence of digital assets and blockchain within the core agenda”

Mark Richardson
Head of trading
Zodia Markets

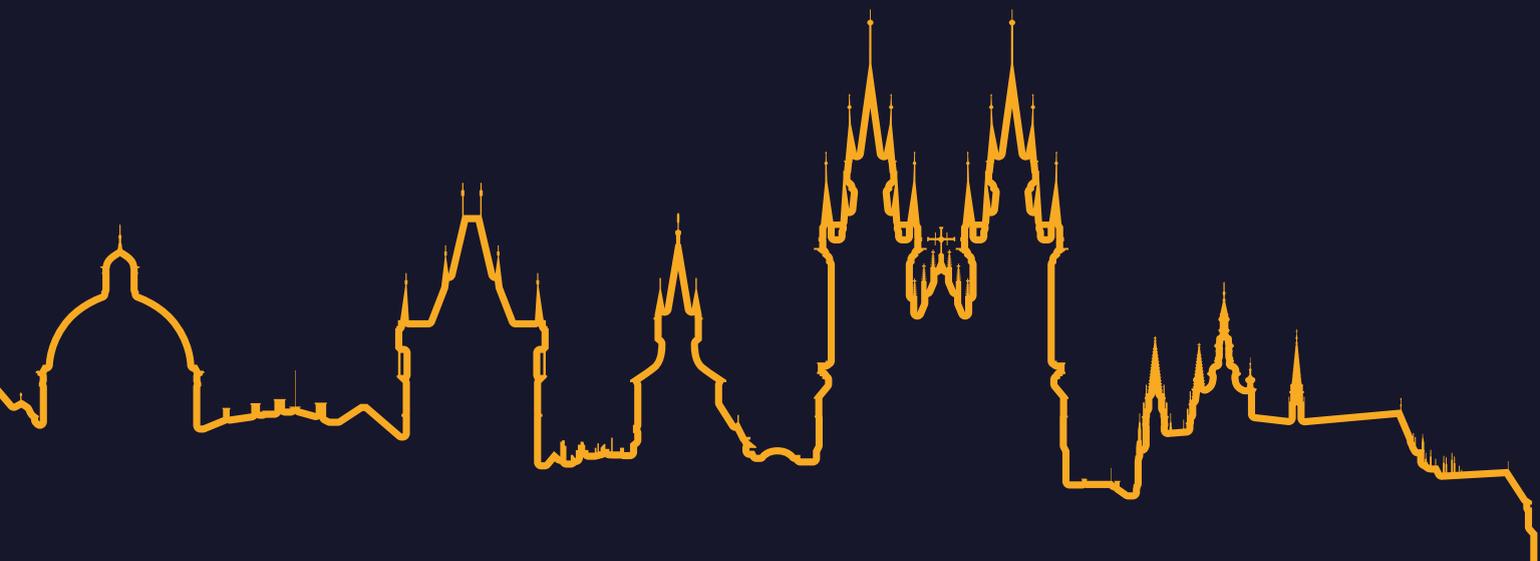
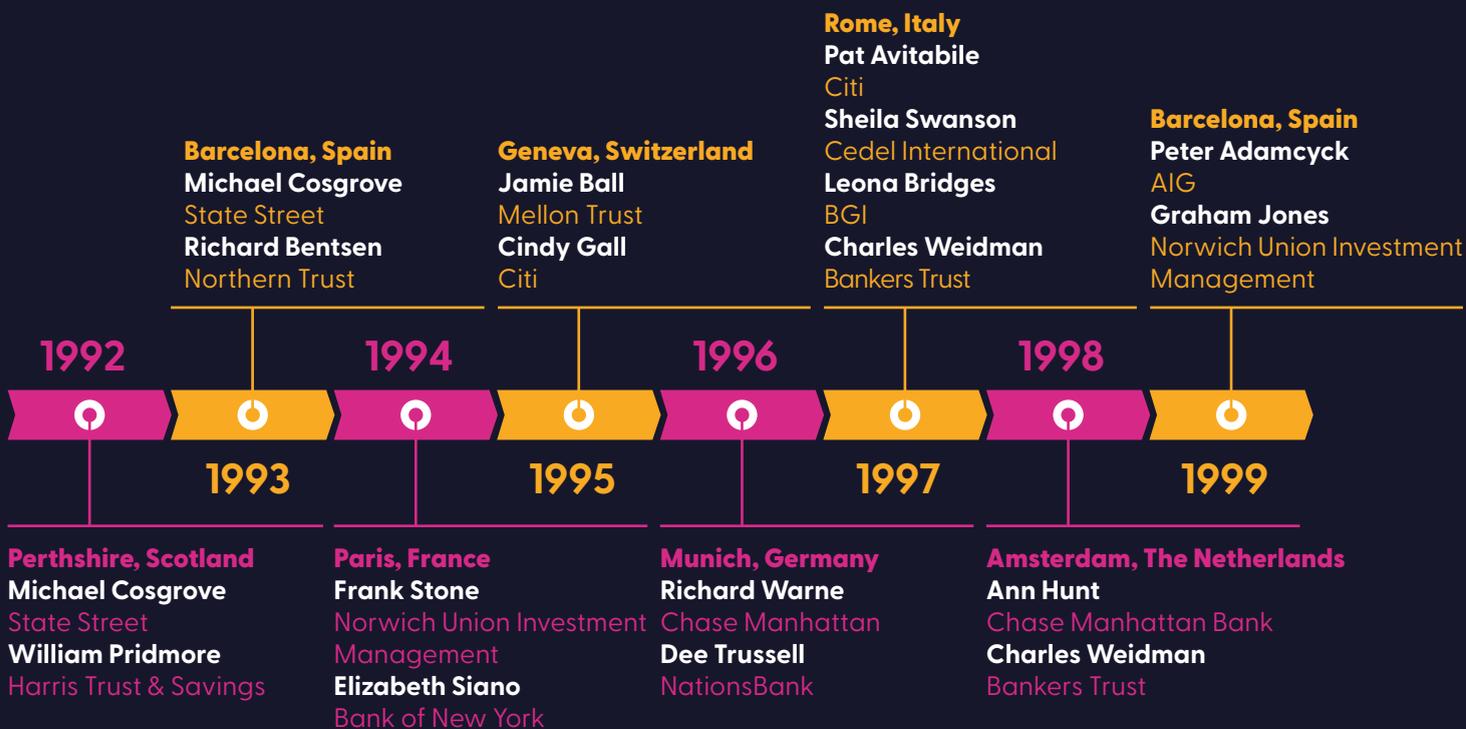
attending the first Women in Securities Finance networking event last year in Vienna.

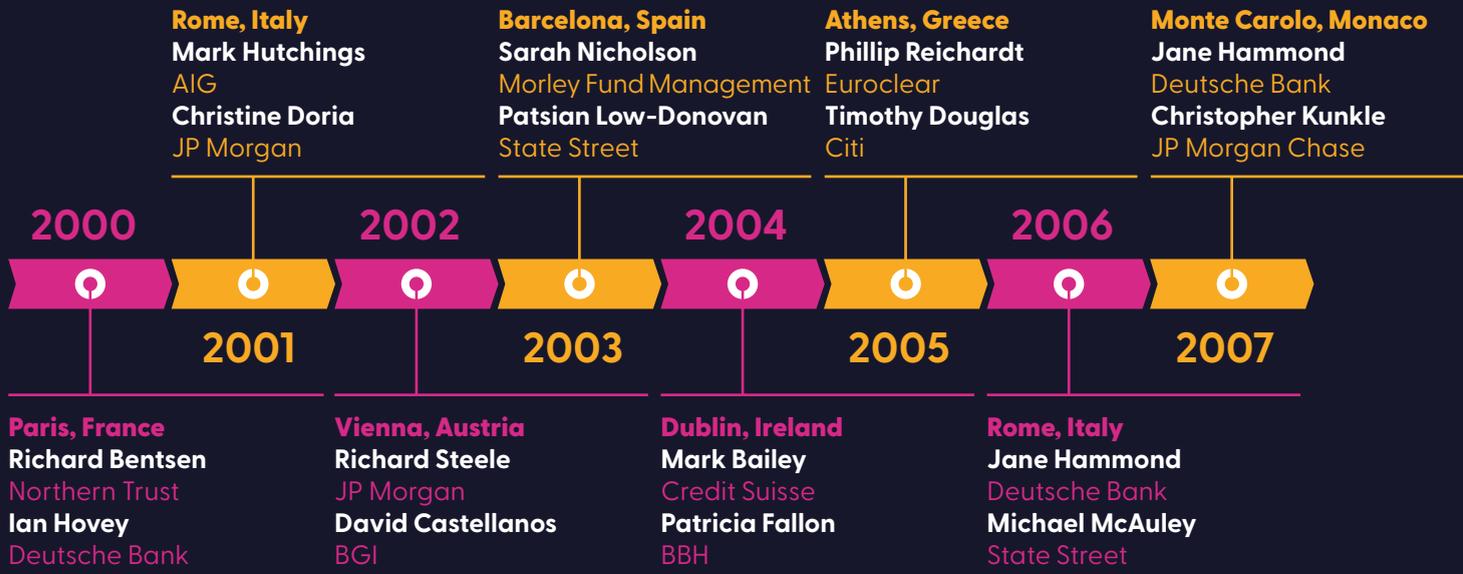
ISLA's leadership on DEI content and networking will allow for even more diverse representation from the business institutions in our market. Thank you ISLA for bringing us together and making us stronger for it! ■

1992-1999

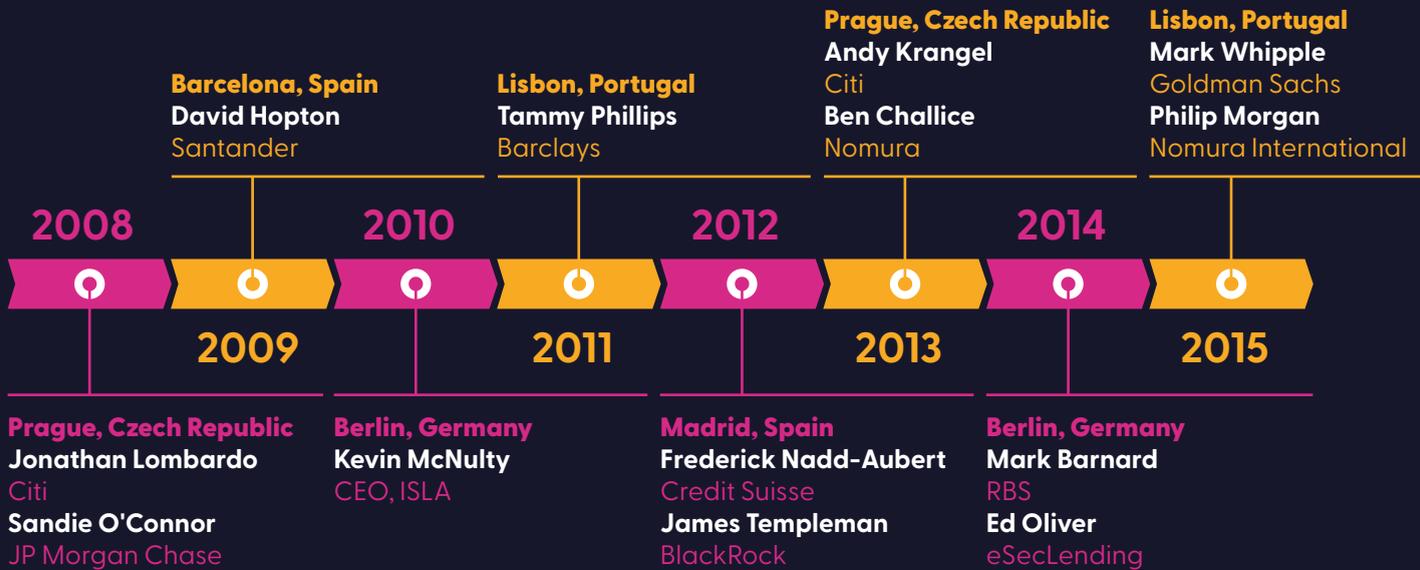
Celebrating 30 Years

As ISLA prepares to welcome the industry to Lisbon for its 30th Annual Securities Finance & Collateral Management Conference, we look back over the past venue locations and conference chairs





2008-2015







An integral part of the global community

Sejal Amin, head of events, marketing and communications at ISLA, reflects on her time with the Association and the evolution of the conference pre- and post-Covid

Ahead of joining the International Securities Lending Association (ISLA), I had been in the industry for more than 15 years and recall attending the ‘institution’, which was ISLA’s European conference, many times as a delegate. From formal client meetings, networking events and the panel and break-out sessions, to the impromptu conversations in the lobby or exhibition space — it was always a packed schedule. What I did not appreciate at the time was how integral this event was to the development of our global community — one of the unique opportunities at the time to meet and share ideas with peers.

I joined ISLA in 2016, primarily to help cultivate our relationships with existing member firms. Until that point, and for much of its tenure, the Association had centred around its Board of Directors — and the cult of one or several key individuals — to advocate for the wider industry and develop our strategy around policy, regulation and legal services.

The conferences were seen as a part of that overall strategy — while

providing invaluable financial support to the Association, an opportunity to bring the industry and its stakeholders together, meet members and, importantly, deliver those key messages to a large and captive audience. When I reflect back on my seven years with the Association, I feel this was something of an inflection point for both ISLA and myself.

Membership engagement, while the initial remit, quickly sat alongside events management to leverage member ideas as part of the planning process. This extended to the regional round tables that were already taking place in discrete locations across Europe, by further developing the format and the frequency to include new member jurisdictions, including the Middle East.

Alongside this grew an acknowledgement that ISLA’s events and our broader communications platforms and digital marketing footprint were no longer fit for purpose. What followed was a ‘renaissance’ of sorts — relaunching the ISLA brand, aligning the messaging across all internal businesses, including events, and ensuring those messages were being

communicated consistently and coherently to our Board, the members, regulators and the wider industry stakeholders, including press.

As I look back, that timing was in many ways critical. Covid-19 hit shortly after, in 2020, leading our events, alongside the global industry, into a complete state of flux. Not knowing what we were facing or how long this period would last, established processes around content creation and messaging to our stakeholders became critical to our work. At the same time, we embraced the change and persevered, exclusively delivering our own virtual and hybrid events, such as Vienna 2022.

Today, we welcome more than 1000 delegates annually to our conferences, regional round tables and briefings, and partner events across EMEA. In 2022-23, and since Covid-19, the regional briefings have been held in Zurich, Paris, Stockholm, Dublin and Amsterdam — the second half of this year will see ISLA returning to Frankfurt, and then Paris once again within 12 months. This year, 2023, will be a milestone year in the Association's history, not least for the 30th Annual Securities Finance & Collateral Management Conference in Lisbon, but also for ISLA's first-ever joint event for the Common Domain Model (CDM) with fellow associations including the International Swaps and Derivatives Association (ISDA) and the International Capital Market Association (ICMA).

This all forms part of an integrated advocacy and public affairs strategy, where we use these events strategically and tactically to support the wider aims of the Association and its members. The timing of our Stockholm Briefing is one example, which saw Sweden begin its Presidency of the European Council while ISLA was looking to engage with them on the Central Securities Depositories Regulation (CSDR). Another example is our most recent Paris event, where we delivered much of the agenda in French in recognition of the importance of this market, especially in a post-Brexit landscape.

Since the appointment of Tina Baker, head of legal services and ISLA's lead on diversity, equity and inclusion, there has been an increased emphasis on such factors when considering events participation and attendance.

In terms of our wider brand and external persona, with more than 7000 followers on LinkedIn, 2000 plus subscribers to our proprietary and industry news feeds, in addition to the volume of thought leadership papers, working group minutes and general website content that we produce and publish each day, the advancements are astounding!



 *“Today, we welcome more than 1000 delegates annually to our conferences, regional round tables and briefings, and partner events across EMEA”*

Sejal Amin
Head of events, marketing and communications
ISLA

I am extremely proud of what the team and I have achieved to get to this point. This would not have been possible without the support and contributions of ISLA Board member representatives, past and present, our 190 plus member and partner firms and, of course, the wider ISLA team.

Here's to the next phase on this exciting journey! 

Marking a milestone moment

ISLA's head of events, marketing and communications Sejal Amin reflects on the planning and consultation that has gone into delivering the 30th Annual Securities Finance & Collateral Management Conference in Lisbon

As anyone who has had experience of delivering large-scale events will tell you, you can never allow enough time for planning! The margins between providing an average or an excellent event experience can be slim and can depend very much on that process. It certainly helps to have a clear plan and a strong team to execute it!

The summer conference, for as long as I have known, has been regarded by the industry as something of an 'institution'. This epitomises what our markets have always centred around — relationships. Notwithstanding the success of Vienna 2022 in its hybrid form, there is no ignoring that the face-to-face aspects of the conference, such as the 'speed dating', the buzz in around the venue and the live debates and discussions in the auditorium, are where the magic is really at.

From that moment, to securing the Epic Sana in Lisbon to mark the thirtieth year, I knew that expectations would again be high.

Meet the team

The key to delivering a successful event is largely in the team. Gosia and Michala from EventRock have been our event partners on both conferences for more than a decade. From initial site visits and supporting contractual negotiations, to onsite management, they are almost part of the fabric of ISLA!

In 2019, Claudia Cavallo joined ISLA as the first permanent member of my team, to support the events, marketing and external communications businesses more broadly.

As the Covid era created a demand for more content and communication, events themselves were becoming more complex. To adapt to these new and evolving norms and to provide dedicated support, Sophie Channon joined the team in 2021.

The key themes of Lisbon 2023

Planning for the conference began in earnest back in November 2022. When the design concepts and branding were finalised and the date and location published, the first task was to agree the



overarching themes for the conference. To guide this process, I chaired a kick-off strategy meeting with the ISLA Board Events Sub-Committee, along with the events team and other senior stakeholders.

Liquidity, collateral mobilisation and capital efficiencies stood out as prominent topics for the conference programme as we evaluated the industry of today. More specifically, our markets have become a unique place where liquidity is now traded in all its forms — and this underpins each of the wider capital, collateral and liquidity considerations that we have highlighted. These became the overarching themes for the three days.

Then to the agenda itself. Alongside the regular panels and presentations that delegates have come to expect, the opening remarks in this 30th anniversary year needed to reflect on how the industry has evolved until this point and defined landmarks along the way — rather than focusing simply on noteworthy developments in the 12 months since the last conference.

Alongside the legal, tax, regulatory and digital updates from ISLA and industry SMEs, the group was also enthusiastic to reintroduce thematic discussion streams to the opening day, concentrating on education as well as providing context to the panels that will follow.

ISLA Diversity, Equity and Inclusion

Delegate feedback from last year's ISLA annual conference in Vienna highlighted that the conference continues to attract the same demographic, with female representation still consistently low.

To address this imbalance, our first priority was on speaker selection, recognising that it was important to use this milestone moment to continue to drive change. We tapped heavily into our diverse and growing membership, working groups and sub-committees, as well as communications, legal and technology partner firms, to showcase new and varied voices on the stage.

From a gender diversity perspective, I am pleased that almost 50 per cent of the confirmed speakers are female — and two of those are providing this year's keynote addresses as senior regulatory and policy figures in Europe.

With budgets often constrained, the challenge was how to attract those that could not routinely attend, perhaps owing to their seniority or



function. For the first time, qualifying delegates that hold junior roles, or that do not work in front-line businesses, are able to join using heavily discounted conference passes. We have provided greater opportunity for specialists from legal or operations divisions, for example, and encouraged wider diversity of attendees through our recently launched DEI Initiative, ISLA Connects. This provides an opportunity to be in and around 600+ practitioners from across the global industry as they come together in one place.

'Talking Heads Wall'

Interviews and testimonials have long been a part of events marketing. Consequently, we have chosen to continue a theme that we introduced at our 25th anniversary conference, where we profiled a series of interviews with key senior representatives from across the securities lending industry, reflecting on how the industry has advanced and their perspectives on this evolution.

From my own viewpoint, so much has changed since this 25th anniversary event — in terms of diversity of attendance, the composition of ISLA's membership, its focus and approach.

To reflect this, we identified about 20 individuals across all facets of our work — from Board member firm representatives and working group chairs, to advocacy, legal, regulatory and technology partners and advisors, as well as DEI ambassadors. Each was asked to respond to a set of bespoke questions — and we recorded a short testimonial that will become part of a 'wall'. These insights will be played on loop in and around the event to showcase the breadth and depth of our relationships. ■

11 months in the making

Earliest preparations began in July 2022



800+ hours of planning

From securing the venues to delivering the event, and everything in between!



24 progress meetings

Weekly meetings to discuss all aspects of logistics, sponsorship, delegate registration, and the marketing and communications plan rollout



35 agenda & speaker brainstorming sessions

ISLA Board Events Subcommittee gatherings, regular speaker brainstorming, and preparation calls with audio visual, co-chairs, and keynote speakers



166 external Communications through email marketing & social media posts

Covering a myriad of general and dedicated distribution lists as well as followers on both LinkedIn and Twitter!



3 site visits to Lisbon

Meetings with events coordinators at both the Epic Sana and the Sud Lisboa to finalise the finer details, including on-site branding, layouts, catering, and entertainment, amongst other things





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Getting connected: regulatory change through 30 years of the ISLA conference

Securities finance veterans from Kaizen Reporting and London Reporting House reflect upon the past 30 years, where regulatory requirements have paved the way for incredible growth in the securities lending and repo markets

The first ISLA conference was pioneered in 1992 in Gleneagles, a fertile ground for laying the foundations of today's trillion-dollar securities financing markets. Similar to the 1992 Stereophonics hit, the securities lending industry really was getting "Connected". It also marked the year of the first International Capital Market Association (ICMA) General Master Repurchase Agreement, as the concept of robust, legally enforceable contracts for repo and securities lending transactions were successfully ported from the US, where they had been in place since the 1980s.

Explosive growth

The establishment of a community and a legal basis for securities financing transactions (SFT) to take place were key components of the success of the securities lending and repo markets. Without it they would not exist, nor would the explosive growth we have witnessed over the past 30 years have happened. The confidence this industry thrives on is dependent upon the legal and regulatory framework in place across the world's major financial markets.

As a barometer of the SFT market, we have approximately seen 1000 per cent growth in the European repo market since 1992 to a current size of €10 trillion.

Despite regulation, or perhaps because of regulation, beneficial owner, client and market counterparty confidence is such that volumes have exploded, markets have opened up and flexibility, as well as adaptability, has been the name of the game.

Innovation from regulation

Opinions are changing and, while it is unlikely that regulation will ever be seen as more than a burden, it is hard to deny that it can be associated with innovation, the adoption of standards and best practices, and far greater market data utilisation than was ever previously possible. This innovation has taken many forms, from the widespread use of CCPs — therefore limiting counterparty risk — to use of triparty agents for collateral optimisation or agent lenders facilitating far greater buy-side asset utilisation.

Together, with changes on the standards front — for example, the adoption of legal entity identifiers (LEIs), unique trade identifiers (UTIs), ISO 20022 and ISO codes for benchmark rates — we have seen greater transaction definition, reduced operational burden, increased settlement efficiency and greatly enhanced portfolio, collateral and financing optimisation.

Trade associations' partnerships

The work of trade associations, such as ISLA, is paramount in partnering with the industry and its regulators through good and bad times to ensure that the legal and regulatory framework evolves and that the markets continue to grow and prosper. Invariably, throughout this period, the regulatory burden has only ever grown larger. Firms have been forced to establish how meeting regulatory requirements has become an integral part of their businesses. This has presented questions such as “how can the adoption of standards and best practices, and the data contained within reports, be used to our best advantage?”. The trade associations have certainly stepped up, progressing hand-in-hand with firms to meet the ever-growing regulatory brief. They are at the forefront of innovation, making regulation compatible with meeting the complex needs of investment firms, agent lenders, beneficial owners, fund managers and market utility and infrastructure providers.

Pre 2008: markets open up

Before the global financial crisis in 2008, engagement between the industry and regulators tended to be driven by the desire to open up new markets for lending and repo. The focus was primarily to ensure that an appropriate regulatory, legal, tax and operational regime was present to allow business to take place. By 2008, while already large, these were much more nascent markets. Indeed, even the unsecured lending market was still very buoyant in pre-Northern Rock times.

1994: first Overseas Securities Lending Agreement

The year 1994 was significant for ISLA, with the launch of the first Overseas Securities Lending Agreement (OSLA). This, the precursor to the General Master Securities Lending Agreement (GMSLA), was key to creating enforceable contracts, netting and in resolving disputes. This was closely followed by the Gilt-Edged Securities Lending Agreement (GESLA) in 1995, bringing the benefits of securities lending to the UK market.

The US pioneered repo agreements with the Securities Industry and Financial Markets Association (SIFMA) creating the Master Repurchase Agreement (MRA) of 1984, while ICMA's Global Master Repurchase Agreement of 1992 brought repo as a tradable, contractually enforceable product across the rest of the world in the 1990s.

Having achieved this primary goal of establishing legal frameworks, legal documentation and standardised contracts, the global financial crisis meant that attention was turned to controls and supervision.

2006: ALD goes live in the US

Even pre-crisis, attention had already turned to Agent Lending Disclosure (ALD), following concerns raised by the US Securities and Exchange Commission (SEC) in 2003 about broker-dealer counterparty, concentration and credit exposures with the beneficial owner clients of agent lenders.

Prior to ALD, without access to principal exposures, regulatory capital requirement calculations were imprecise and inefficient. ALD went live in the US in 2006 and was subsequently adopted in Europe in 2008, helping to optimise balance sheets, regulatory capital and liquidity buffer requirements.

2008: global financial crisis hits

The global financial crisis of 2008 was a significant inflexion point for the engagement between regulators and the securities finance industry. Post-crisis, regulators adopted a much more proactive approach to the product, especially given that securities finance was perceived to be a key component of the so-called 'shadow banking' industry.

Regulatory initiatives have focused on two key themes:

- Investor protection and treating customers fairly. This means:
 - making sure that market participants have the necessary capacity and authority to conduct business on behalf of their underlying beneficial owner clients.
 - ensuring that these clients have a proper understanding of the activity being conducted on their behalf.
 - ensuring a sufficiently transparent regime when it comes to the revenue being generated by this activity.

An example of this type of regulation is the ESMA guidelines for Efficient Portfolio Management (EPM) activity, which includes securities finance — first published in 2012.

- Measures to identify, monitor and ultimately limit systemic risk posed by securities finance transactions as part of the broader 'shadow banking' industry. Much of these stemmed from the work of the Financial Stability Board (FSB) in the years following the crisis.

An example of this type of regulation is the introduction of minimum haircut floors for securities financing transactions, brought in as part of the Basel framework for regulatory capital requirements.

2020: SFTR goes live

The Securities Financing Transactions Regulation (SFTR), published by the European Securities and Markets Authority (ESMA) in 2015 and implemented in 2020, has proved quite pioneering, despite delays. Published just one month after the seminal FSB document "Standards and Processes for Global Securities Financing Data Collection and Aggregation", and while overblown and under-defined, it has become a beacon of how to capture all SFT activities for regulators in one place.

Upcoming US regulation

US SFT data collection is set to be made up of four distinct datasets

for cleared repo (direct from DTCC), triparty (direct from BNY Mellon), securities lending (proposed to be submitted to the SEC via FINRA), and uncleared bilateral repo to the Office of Financial Research (US Treasury Board).

Greatly delayed implementation has also meant that the US authorities have been forced to openly admit the holes in their data set, amid the regional banking crisis they are currently experiencing. On uncleared bilateral repo reporting, the Federal Register stated that it was, "a critical blind spot in a market that plays a key role in financial stability".

Short selling concerns

In the context of impending US SEC securities lending reporting there have been concerns about short selling. This remains a politically charged issue when evaluating its impact on underlying equity markets, the perceived lack of a level playing field and the effects played out on retail investors' saving, stock portfolios and pension funds.

Throughout history, short sellers have often been made the scapegoats when markets fall sharply. Often, the knee-jerk reaction of regulators is to ban short selling in the hope that this will somehow support asset prices and stop (or at least limit) these falls. The problem is that short selling bans simply do not work. Since 2008, there have been several instances where they have been introduced and there have been numerous academic studies into their impact. The overwhelming conclusion of these studies is that short selling bans have no effect on the underlying market price. In fact, the only discernible impact was to damage market liquidity and widen bid or offer spreads to the detriment of all market participants.

2023: market turmoil

Indeed, calls for a short selling ban have been heard as recently as early 2023, in the wake of the demise of the Silicon Valley Bank, following the Gamestop debacle and market turmoil in the US bank sector. There remains a fine balancing act between promoting securities financing market business growth and in strengthening the regulatory framework to mitigate systemic risks, protect less sophisticated investors and ensure markets remain well regulated, liquid, fair, sustainable and orderly. Trade associations such as ISLA continue to play a crucial advocacy role in helping to steer regulators towards sound, evidence-based decision making and policy that promotes growth and does not stifle innovation. ■

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European securities lending panel

Securities lending specialists reflect on macro events which have impacted the sector over the past 12 months, the opportunities this has created in European markets and where firms are investing to enhance their lending activities

Panellists

Grant Mansfield, Director, head of trading, EMEA fixed income, equities and cash collateral investment, **BNY Mellon**

Danila Khanh Dinh, trading associate, Agency Securities Finance, **J.P. Morgan**

Dayna Chamberlain, trading associate, Agency Securities Finance, **J.P. Morgan**

Mark Jones, senior vice president, head of securities finance, EMEA, **Northern Trust**

Christian Schuetze, head of financing solutions, Europe, **State Street**

How do you assess the performance of European securities lending markets over the past 12 months?

Dayna Chamberlain: Market volatility has been a key determinant of the securities lending landscape. The series of macro events caused

by the Russia-Ukraine war triggered a cost-of living crisis and fears of recession, which was worsened by the successive interest rate hikes implemented to combat rising inflation. These mounting macroeconomic pressures shifted short interest towards cyclical sectors with names predominantly within the consumer discretionary, real estate and

banking sectors. Sovereigns also experienced a surge in demand as a result of the gilt crisis, which triggered tightening in the credit markets and a drain on collateral liquidity.

As we entered 2023, we saw a general reduction in revenue opportunities across equities as hedge funds became more conservative in their positioning, with the size and breadth of specials



“The recent volatility has increased our focus on risk and control oversight, which has become crucial for sustaining a well-functioning lending business in this environment”

Dayna Chamberlain
Trading associate, Agency Securities Finance
J.P. Morgan

decreasing as markets recovered. We saw spreads widen across the credit market as a result of increased activity from systematic hedge funds, with liquidity taking a more prominent role in pricing to better reflect the risk profile of assets. Q2 2023 saw cost of capital and high expenditures begin to weigh heavily on balance sheets and, as such, we saw pockets of corporate action activity within distressed sectors as companies looked to raise cash to weather a potential recession.

Christian Schuetze: The last 12 months were once again characterised by a change in trade structures and goals. Our perception is that while demand for high-quality liquid assets (HQLA) remains unbroken, maturities continue to move from liquidity coverage ratio (LCR) to net stable funding ratio (NSFR) coverage. On the equity side, we see more stocks that are warm or special. The levels and, ultimately, the fee income are at a higher level.

Grant Mansfield: Quantitative easing has caused a compromise in supply for bunds and gilts, equating to increased utilisation and spread. In the corporate and emerging market space there has been a continuation of volatility and, therefore, spread has been present for more than two years due to various factors including Brexit, Covid, energy inflation due to the war in Ukraine, and the recent banking crisis. This led to sector-related interest in the equity markets. European indices witnessed heavy volatility and a large flight to quality, resulting in a need for collateral as equity sell offs left counterparts needing to cover their collateral obligations through securities lending.

In which European markets (by jurisdiction, asset class) do you identify strongest opportunities for growth of your lending business?

Mark Jones: We have witnessed significant growth in lending volumes and fees for US corporate bonds and dollar-denominated emerging market debt. With the Federal Reserve reaching the terminal rate, we would expect some greater traction in European credit markets as the European Central Bank (ECB) looks set to maintain interest rate hikes to combat inflation. Global recessionary fears should also start to emerge, driving greater activity in credit markets as corporate bond issuers are forced to endure higher funding costs.

Added caution on long bias strategies has reduced internalisation opportunities, increasing the need for borrows and driving demand for supply. Furthermore, interest rate hikes have had a bearing on swap pricing, impacting the demand dynamic.

Schuetze: Although I don't have a crystal ball, I am convinced that we will continue to see high levels of volatility in the markets. Accordingly, trends change too quickly and you have to remain mentally flexible enough to be able to change course if necessary. HQLA will remain a central topic. I also expect strong impacts from the clearing obligation for pension funds.

Mansfield: With quantitative tightening having started, it is tempting to say that the spread due to illiquidity in gilts, and to a lesser degree in bunds, will disappear. But that will depend on the rate of tightening and the behaviour of the national debt management agencies. Well rated HQLA, if not special due to liquidity factors, can be used in term and cross-currency swaps to create spread. Despite the macroeconomic landscape proving difficult, the need for cap raising or expansion should re-establish itself. Firms still have a desperate need to raise capital to cover rising costs and we should see an increase in capital raisings from distressed firms, as well as the need to fund takeovers and growth, given that borrowing cash is now a lot more expensive. A direct correlation should see increased activity in the M&A space, with firms primed for takeover due to being cash strapped and hampered by debt.

Chamberlain: Over the coming year, there may be a bigger focus on macro and credit strategies, with hedge funds gaining short exposure via broader asset classes in lieu of traditional equity shorting as firms struggle to refinance their debt from historical low levels. While this presents an opportunity for increased utilisation across those asset classes, lack of transparency within the OTC market brings liquidity and settlement challenges.

The introduction of alternative supply pools also presents a potential opportunity for considerable growth, with non-traditional funds and the evolution of lending models within emerging markets, such as the Middle East, being our focus for 2023. The lack of established lending supply pushes fees higher than those seen in developed markets and, with the facilitation of short selling likely to increase trading volumes, demand for securities can be expected to grow.

Digitalisation also brings potential opportunities to mobilise non-traditional asset classes and markets, alongside a possible expansion of the assets accepted for collateral purposes, with tokenisation becoming a key concept.

Global financial markets have faced one of the most financially tumultuous periods entering 2023 since the end of

the global financial crisis. What pressures and opportunities has this created for your securities lending business?

Danila Khanh Dinh: The past couple of years have been an exciting time for securities lending, experiencing fast-paced hikes since 2020, bond future volatility and collateral scarcity, then compounded with Russian invasion, a gilt crisis due to the UK mini budget in September



“We have invested to ensure our trading teams and our clients have access to comprehensive real-time data and analysis, which is critical to navigating in periods of volatility or uncertainty”

Mark Jones
Senior vice president, head of securities finance, EMEA
Northern Trust

2022, Silicon Valley Bank events and the contagion into European banking assets. Credit markets have seen liquidity of collateral dry up. This has presented challenges across the industry as a result, with infrastructure strained as market participants adapt to handle the volumes of new trades and recalls. The start of this year saw a softening in the specials book as rallying indices generated an unwind across many sectors. We have seen credit and macro strategies direct



“BNY Mellon is actively working with trade associations, ESG labelling bodies, policymakers and regulators to evolve best practices for the consideration of ESG factors in securities lending”

Grant Mansfield
Director, head of trading, EMEA fixed income, equities and cash collateral investment
BNY Mellon

flow away from equity into credit to gain exposure to companies, and firms that are set up to support cross asset trading, with dynamic pricing and liquidity models and a strong automation foundation, have been able to adapt to these changes successfully.

Schuetze: Daily credit oversight and counterparty risk are two things our clients frequently ask us about, and their concerns are understandable. Thanks to our rigorous monitoring processes, paired with our more than 40 years of experience in managing lending programmes, neither of them had been an issue to us at State Street.

The real challenge lies in the current interest rate environment. Most loan programmes have a borrower default indemnification. The spread between value and price widens massively in the increasing yield environment, making indemnifications very expensive.

At the same time, however, we also see significant opportunities. These lie in both the lending and repo business. We were the first major custodian to become a Eurex Repo Clearing member earlier this year, which will help boost our liquidity tool kit and provide a full financing product suite to customers of the bank.

Mansfield: HQLA spreads and utilisation have increased with macro-economic changes — central bank easing has compromised supply in certain markets and interest rate rises create an environment that is healthy for certain counterparties to take positions. With a natural spread in bonds, the need to term trades diminishes and a book can stay shorter. In the credit markets, the Ukraine war and the banking crisis have simply added more volatility to a market that was already active. As we moved further into the year, with more confidence in equity markets, we have witnessed a return in activity and risk appetite. Despite the collapse of Credit Suisse and the banking sector initially being brought into question with concerns surrounding some of Europe’s global systemically-important banks (GSIBs), strong statements from European leaders, as well as stronger capital reserves, brought the sector quickly back in line.

What impact has monetary tightening had over the past 6-12 months on lending opportunities and collateralisation strategy in Europe?

Mansfield: Tightening is something that is going to take spread out of some HQLA assets, specifically gilts and to a lesser extent bunds. Liquidity in bunds has been increasing for some time, but, in gilts, where supply is still compromised, tightening will have an effect, although the plan for £80

billion in 12 months is not aggressive. Monetary tightening, coupled with inflationary pressure fuelling recessionary fears leading to a market sell off in equities, brought about an increased need to borrow non-cash collateral. However, with a return in the yield curve, opportunities present themselves to capture additional spreads achieved from terming up cash collateral.

Jones: We remain highly-focused on counterparty risk. As such, we have taken action during the period, utilising multiple different measures to protect our clients from the headwinds noted. With market stress comes potential opportunity. Therefore, our trading desks have taken advantage of wider lending fees, while continuing to transact with the highest-rated counterparts in the market. A general risk-off sentiment across the hedge fund community has created a de-grossing cycle with borrower balances softening somewhat. Specials demand has been more concentrated with macro environment concerns acting as the primary driver. Those companies most exposed to servicing high levels of debt in the midst of increased borrowing costs attract the strongest interest. The greater market volatility and investor uncertainty has dampening corporate event driven opportunities in Europe year-to-date. Additionally, as industry participants look to manage their binding constraints, the emphasis on regulatory capital friendly structures or more diverse collateral types is a continued theme that presents potentially positive opportunities.

What investments and adaptations to working practices have you made to sustain and grow your European securities lending activity in this environment?

Jones: We continue to invest heavily in our technology, our products and our people. We have invested to ensure our trading teams and our clients have access to comprehensive real time data and analysis which is critical to navigating in periods of volatility or uncertainty. As well as enabling us to manage the risk such an environment presents, it also allows rapid assessment of opportunities and provides our clients with comfort that they have full transparency into their programme and can use our data to contribute to the optimisation of their activity. It has become increasingly important to our clients to view lending as one part of a total portfolio approach, and by providing them with access to data and an integrated set of securities finance products, they have the tools they need to manage risk, fulfil their collateral obligations and generate meaningful returns.

Schuetze: As one of the largest agent lenders in the world, we

constantly work on our setup to meet the needs of our customers.

A major step for us is the expansion of our continental European footprint. In addition to the Eurex Repo Clearing membership, we also have a strong local financing team and have extended our research footprint in the region. One of our core business objectives is to further strengthen the global State Street Financing Solutions business in continental



“With many firms long cash, the need for rights issues and corporate actions may be limited to certain pockets driven by distressed names, the need for reorganisation and to repair balance sheet”

Danila Khanh Dinh
Trading associate, Agency Securities Finance
J.P. Morgan

Europe. In our opinion, the rather volatile current environment is supportive because it forces all of us to rethink our setups.

Chamberlain: With the continued focus on a streamlined end-to-end workflow, automated trading has been key in supporting increasing volumes, and we have adapted our operational processes to incorporate vendor solutions to enhance the efficiency of our trading workflow and proactively manage the number of breaks and fails. We have also been



"We expect an ongoing borrowing demand throughout all asset classes. The elevated volatility is an important factor for the derivatives markets which needs to be hedged"

Christian Schuetze
Head of financing solutions, Europe
State Street

looking to grow our business through alternative trading platforms which have facilitated both price discovery and best execution.

The recent volatility has increased our focus on risk and control oversight, which has become crucial for sustaining a well-functioning lending business in this environment. We have configured key indicators to help us identify and track the risk associated with particular assets, and investment in this methodology has allowed us to differentiate our lending business through effective book management and risk-adjusted pricing.

What impact has monetary tightening had over the past 6-12 months on lending opportunities and collateralisation strategy in Europe?

Jones: Aggressive interest rate increases have been prevalent across many financial markets, but the ECB's monetary policy has perhaps had the greatest impact on sovereign debt repo and securities finance activity. We have witnessed a number of core European bonds trading with a specials premium while, more recently, liquidity conditions have become somewhat stressed as the ECB lowers its presence. The central bank has sought to reduce accommodative monetary policy and unwind their significant bond holdings bought as part of quantitative easing programmes. Moreover, increasing sovereign yields have resulted in lower prices and collateralisation challenges. To mitigate the risk, Northern Trust has sought to expand our collateral eligibility, looking at new asset types and trade structures; including the expansion of our pledge offering.

Schuetze: The tense financing market in the first three quarters of 2022 led to an imbalance between liquidity and scarce collateral. This became particularly clear when the ECB started raising interest rates. Money market rates have been slow to follow suit because demand for HQLA has been so high. This also underscores the importance of alternative sources of collateral such as peer-to-peer models.

The current inflation situation in the EU is unlikely to change in the near future, so the use of cash collateral is currently more interesting than in recent years and will remain so.

The expectation of rising interest rates increases short-term interest in EU bonds and offers lenders the opportunity to generate higher excess returns for their portfolios, while agent lenders are facing higher opportunity costs when using risk-weighted assets (RWA) through indemnification.

What expectations do your clients have from you as a service provider in supporting their commitment to sustainable lending and borrowing? Have recent market conditions and geopolitical stresses had an impact on demand for ESG-compliant lending solutions?

Mansfield: To meet our clients' expectations, BNY Mellon's securities lending programme is designed to be inherently flexible, so clients can align their lending programme parameters with their ESG strategies. Supporting our clients who have developed ESG and sustainability policies, BNY Mellon clients have transparency on ESG data points across their agency securities lending programme. Our programme capabilities provide visibility into securities lending, enabling clients to apply ESG scores to their lendable portfolio, their collateral and their cash investments. The functionality draws on MSCI ESG Ratings delivered through BNY Mellon's Data Analytics platform, allowing clients to validate daily that the collateral they receive and the investments they make are within the tolerance levels of their own ESG investment policies. At an industry level, BNY Mellon is actively working with trade associations, ESG labelling bodies, policymakers and regulators to evolve best practices for the consideration of ESG factors in securities lending.

Recent market events and the geopolitical landscape have further highlighted that ESG policies will inevitably vary between clients as they assess financial risks and materiality in the context of ESG factors. As we have seen, there is no single approach to ESG and this has only been further underscored by the current economic and geopolitical landscape.

Schuetze: ESG has been an important topic in the securities lending industry for a while, particularly in Europe. The last few months may have accelerated this trend somewhat, but the requirements are clear: transparency, compliance and integrity.

Socially responsible investment and ESG are important parts of our loan programme that support our clients' needs. The main issues that we discuss with clients regularly are around collateral schedules, voting and proxy voting, but also the effect of short selling on markets and portfolio performance.

Jones: Being able to support our clients' ESG approach is absolutely critical. If we go back a decade, ESG was a topic that came up in perhaps one in 10 onboarding conversations. Now it is every single one.

The approaches remain varied from client to client, so we have focused on implementing a wide range of solutions that allow our clients to feel comfortable they can operate a sustainable programme with our support. The ability to exercise good corporate governance through voting at AGM or EGMs remains the most common requirement and we have a number of options that help clients to achieve that.

How do you assess the outlook for European securities lending markets for the remainder of 2022 and into 2023?

Schuetze: We expect an ongoing borrowing demand throughout all asset classes. The elevated volatility is an important factor for the derivatives markets which needs to be hedged. Clearing obligations increase stability and at the same time increase the demand for collateral optimisation. We see an ongoing trend to outsource non-core asset management functions.

Securities lending is one of these functions, and our clients and prospect clients are showing stronger interests in securities lending, given the alpha it can help portfolio managers to generate while these firms focus on maintaining a cost-effective operation that is laser-focused on what they do best — managing assets.

Dinh: Looking into the remainder of this year and into 2024, we expect the lack of conviction to continue, with the exception of a few key names that stand out. With many firms long cash, the need for rights issues and corporate actions may be limited to certain pockets driven by distressed names, the need for reorganisation and to repair balance sheet, along with reductions in scrip activity — with firms opting for cash-only payments. With the heightened focus on capital and RWA, new methods of mobilising assets with vendor partners, increased financing solutions opportunities, and emerging technologies such as digitisation and tokenisation impacting both ASF and collateral, market participants' ability to adapt their trading models will be key to whether they can capitalise on prospects within the next 18 months.

Mansfield: Regulatory capital and indemnification cost for securities lending and SCCL limits continue to remain challenging. Cleared repo volumes are continuing to trend higher and there remains an opportunity from both an increased collateral supply and regulatory perspective to become active across regions in the cleared repo space. The growing need for European lending CCPs has become increasingly important to help the market navigate these challenges. ■



Entering a new era

ISLA's CEO Andrew Dyson and first female chair Ina Budh-Raja speak with Carmella Haswell on the Association's three-year strategy as the industry undergoes an unprecedented period of transformative change

The International Securities Lending Association (ISLA) is paving out its next steps in leading the industry through periods of evolution, with a new board of directors and its first female chair and person of Asian heritage taking the reins.

"It is an exciting time to be taking on the position of chair as the industry undergoes an unprecedented period of transformative change," says ISLA chair Ina Budh-Raja. The ISLA team and previous board of directors, which Budh-Raja has been a part of for the past three years,

have built the foundations essential to supporting members through the forthcoming evolution of the securities finance industry.

The post-financial crisis regulatory reform agenda is now well-matured and a new era of regulatory policy is taking shape, Budh-Raja notes.

The board is ready to address future priorities such as digitisation, sustainability, increased investor and consumer protection, with an overarching focus on market efficiency, resilience and accountability. Entering a new era for the Association, a revised three-year strategy,

extending through to 2025, gives detailed attention to the digital agenda, which covers the tokenisation of conventional asset classes, as well as the introduction of new 'native' digital assets.

In November 2022, ISLA released a report proposing alterations to the Global Master Securities Lending Agreement (GMSLA) to allow for market engagement with digital assets. The paper, entitled 'Preparing the Global Master Securities Lending Agreement (GMSLA) for an Evolving Digital Asset Landscape', discussed how digital assets could transform liquidity management and revolutionise the global securities finance industry. It further pinpointed elements within and outside of ISLA's remit that need to be addressed, including legal, commercial and documentation issues.

"There is no doubt that new and novel asset classes, including digital and crypto assets, are increasingly demanding the attention of the investment community," notes ISLA CEO Andrew Dyson. "As these asset classes come into the mainstream, it will be important for those that serve these industries, including securities lending, to be duly prepared to support them."

The report highlighted the message that digital assets would revolutionise the market. For Dyson, the paper presents a fundamental first step in analysing the key considerations and potential issues that may arise when incorporating digital assets, and sets out a long term agenda for their discussion and resolution.

As markets begin to embrace these new asset classes, preparations will continue on the digital agenda. Dyson states that the Association's work on the Common Domain Model (CDM) will provide the foundation for much of this development. "I would also expect to see more from the joint associations (ISLA, ICMA and ISDA) as we build out our respective data models, with the move to a true open source environment through FINOS being transformational," he adds.

The global sustainable policy agenda will also become a dominant theme for ISLA. It is an agenda that impacts all corners of the financial markets and requires the industry to adapt to consider environmental, social and governance (ESG) factors and to maintain liquidity in the capital markets. Continued market education and advocacy will be required to prevent attrition of lendable assets, says Budh-Raja, to maintain stability and liquidity underpinning the broader markets. ISLA will also assist members in navigating the regulatory frameworks that are developing around digitisation and sustainability. This will

require further analysis and advocacy to drive robust, risk-managed and, where possible, standardised outcomes for the industry.

In line with ISLA's geographical remit, the Association is deepening its coverage of the Middle East region, recognising that these jurisdictions are now rapidly developing their capital markets infrastructure and that securities lending is a priority in the region as a foundation for deep and liquid markets.

As part of ISLA's aforementioned three-year strategy, 2023 will see continued engagement and advocacy with policy makers in the region, development of market structure guidance, standardised legal documentation wherever possible — including entity-specific considerations such as Sharia constructs and revisiting netting capabilities in relevant jurisdictions. Budh-Raja adds: "While this is a sizable book of work for the ISLA team, it is one which will support new opportunities for members operating both in the region and on a cross-border basis."

Accounting for D, E and I

By taking on the position of ISLA chair, Budh-Raja became the Association's first female lead since it was formed 35 years ago. "In my 25 plus years of working in financial services, I have learned from personal experience that representation really matters. At a very basic level, it is important to see 'people like you' performing well in roles which may otherwise have seemed inaccessible within historic systemic norms."

Budh-Raja remains an active advocate for diversity, equity and inclusion (DEI), having worked alongside the Women in Securities Finance organisation for the past five years as co-lead of the London chapter.

"I have certainly been inspired by examples of positive representation and it is therefore incumbent on me — and others like me — to step into leadership roles where possible, even if that means facing our natural fears of being 'the first (female)' in the position," she adds.

Not only does Budh-Raja hold the metaphorical torch as the first female ISLA chair, but she also represents the first ISLA chair of Asian heritage, an achievement that is equally important for Budh-Raja in terms of embedding DEI in the industry and creating a level playing field for people from all backgrounds, across several diversity factors.

Finally, diversity of skillsets and perspectives is essential to the growth of our industry," says Budh-Raja. "I hope I can serve as an example, at least in some small way, to others who work in securities finance roles which may traditionally have been viewed as tangential to the business, but in fact, are increasingly critical components of a well-functioning, progressive business."

Budh-Raja explains that she began in the industry as a securities finance lawyer, moving into the line of business at a later stage; a move that has taught her first-hand that transferable skills can bring value to the commercial strategy of a business and complement the broad mix of skills required to drive a business forward in a complex, competitive environment.

DEI will form an intentional strand of the overall ISLA strategy going forward. By the end of Q1 2023, new policies and procedures will be in place to embed DEI criteria more formally, including the creation of a Code of Conduct, now in place, to cover ISLA events and policies outlining DEI considerations for the events team. A series of DEI initiatives is soon to be announced by the organisation.

Dyson concludes: "As an Association that seeks to include all in the work that we do, I firmly believe that we have a very real responsibility to pursue diversity, equity and inclusion across our industry into all facets of our lives. ISLA has a real opportunity to drive the reforms needed to deliver a diverse and more inclusive workplace environment and helping to deliver on those objectives will be an important part of our collective efforts this year."

An important year ahead

Systemic risk events have tested the financial markets to the extreme,

says Dyson. Considerable volatility put pressure on the markets, and the banking sector more broadly, during early 2022. Following the UK mini budget in autumn of 2022, market participants also faced intense volatility in the UK Gilt market, which led to the so-called liability-driven investment (LDI) crisis — leaving market participants struggling to fulfil margin obligations under long-term swap transactions.

Although order was restored after the intervention of the Bank of England, Dyson warns that the industry needs to be mindful of the messages that these events have sent, as the market continues to think about liquidity and, notably, the availability of collateral.

The impact of the sudden and dramatic demise of FTX in 2022 has added to this market uncertainty. "Many of the issues swirling around the company and its founder relate to very familiar themes associated with proper and transparent governance and oversight," Dyson indicates. "Some of the work that we are looking to do at ISLA around documentation for that segment of the market will be part of an inevitable process as this market evolves and matures."

Evaluating the financial landscape, Dyson believes 2023 will be an important year for the industry. Opportunities are arising with risk-weighted assets (RWAs) and total return swaps (TRS) front and centre, while the regulatory agenda is set to alter as new narratives emerge.

In his analysis, Dyson says: "As the real impacts of the implementation of the Basel framework become clear, we are already seeing the market actively looking at new and different ways of transacting business that either negate or significantly reduce RWA charges associated with the traditional lending model."



"We are at an inflection point, where market participants are having to adapt at pace to solve for new regulatory changes, resource constraints and to manage capital more acutely to remain competitive"

Ina Budh-Raja
Chair
ISLA





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Market participants are paying increasing attention to pledge collateral models, with Dyson anticipating an acceleration in their use, especially if so-called regulatory uncertainties around the structures are resolved. In addition, synthetic lending in the form of TRS are attracting a considerable focus from the market, due to the lower RWA costs associated with derivatives, as well as the ability to net street and client trades from a balance sheet perspective. Dyson predicts that the use of TRS will grow exponentially throughout 2023 and 2024 as lending agents look to develop greater capabilities in this area.

The reduced number of brokers in the European market today is impacting market behaviour, notes Dyson. He explains: “While it is acknowledged that the remaining incumbents have taken up much of the flows from departing firms, the market is now, in my view, struggling with single counterparty concentration issues and therefore looking at other ways to get securities to the end users.”

A direct implication is that central clearing — that has for long been problematic for the market — may now be welcomed more widely as a solution that diversifies risk and reduces RWA costs.

Budh-Raja states: “We are at an inflection point, where market participants are having to adapt at pace to solve for new regulatory changes, resource constraints and to manage capital more acutely to remain competitive.” The combined effects of changes to the Basel framework, RWA implications and single counterparty concentration limits require firms to be nimble, resource efficient and to have a suite of solutions available to them, Budh-Raja adds, which may include increased use of pledge collateral arrangements, the emergence of agency synthetic TRS solutions and a new advent of CCP solutions.

EU and UK markets are to face tremendous regulatory change in 2023 as policy makers address factors highlighted by recent market volatility, as well as tackling the systemic and cultural changes necessitated by digital transformation and sustainability agendas.

Budh-Raja continues: “We are already seeing the beginnings of policy divergence in a post-Brexit world and the impact on the financial services’ regulatory agenda is increasingly complex as we adapt to parallel regulatory regimes, while operating global businesses straddling nuanced regulatory differences.”

The ISLA chair expects to see significant regulatory and policy developments associated with the broad sustainability and digital agenda, as well as investor protection and fund structure regulation — which will all require strategic advocacy and active representation from a securities finance perspective.

As an association that has its membership now largely split between the EU and the UK, Dyson notes that it is important that ISLA works actively with its respective member firms to ensure that the Association continues to deliver the right outcomes as these two areas potentially diverge.

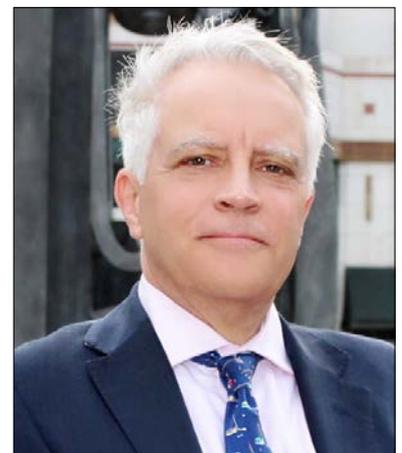
Budh-Raja concludes: “It is imperative that ISLA is one step ahead in supporting its members through this period of change and innovation, advocating with regulators for pragmatic outcomes which are compatible with securities lending and do not result in inadvertent limitations on this market.” ■

This article was originally published in March 2023, please note that some information may no longer be current.



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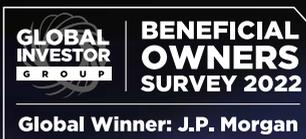
Andrew Dyson
CEO
ISLA



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