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Global revenue fell 12% in 2020, says DataLend

Global revenue for agent lenders fell by 11.6 percent year-over-year (YoY) in 2020, representing $7.66 billion, according to DataLend, the market data division of EquiLend.

Despite a year high volatility, usually an indicator of strong returns for the securities finance universe, the market failed to replicate the $8.66 billion returns for lenders recorded in 2019.

Global revenue was also down 20.7 percent compared to the $9.96 billion in record-setting 2018.

Global broker-to-broker activity, where broker-dealers lend and borrow securities from each other, totalled an additional $2.87 billion in revenue in 2020, a 1.6 percent decrease YoY.

The top five revenue-generating securities in the global securities lending market in 2020 were US IT firms Match Group, cannabis product manufacturer Canopy Growth, German car battery manufacturer Varta, Inovio Pharmaceuticals and electric truck manufacturer Nikola Corp. Together, they generated $482 million in lending revenue in 2020.

The data provider says the decline in lender-to-broker revenue was experienced across equity markets globally: Americas (-3.4 percent), Europe, the Middle East and Africa (EMEA) (-19.2 percent) and Asia Pacific (-26.8 percent).

Across fixed income globally, corporate debt was down 37 percent, while government debt finished the year up 15.3 percent relative to 2019.

As the COVID-19 pandemic first took hold in Asia and then Europe in the opening months of 2020, the subsequent equity markets drop-offs led to lower on-loan volumes, while the spate of short selling bans across both regions ensured lacklustre revenues in the first six months of the year.

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Inside this issue

Publisher: Justin Lawson
Justinlawson@securitiesfinancetimes.com
+44 (0) 208 075 0929

Editor: Drew Nicol
Drewnicol@securitiesfinancetimes.com
+44 (0) 208 075 0928

Reporter: Natalie Turner
Natalieturner@securitiesfinancetimes.com
+44 (0) 208 075 0926

Reporter: Maddie Saghir
Maddiesaghir@blackknightmedialtd.com
+44 (0) 208 075 0925

Office manager: Chelsea Bowles
+44 (0) 208 075 0930

Marketing director: Steven Lafferty
design@securitiesfinancetimes.com

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Global lender revenue fell 12% YoY in 2020

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Meanwhile, Nancy Allen, global product owner of DataLend, says that in the Americas, "while equity loan values declined YoY, average fees increased, driven by a number of COVID- and non-COVID related names trading at very high fees to borrow".

"However," Allen states, "as the year progressed, short positions in US equities dropped to significant lows as markets not only rebounded but hit record highs.

She adds: "As a result, the lending market experienced depressed fees and on-loan balances, which drove the considerable decline in revenue. As we approached the year-end, equity lending revenue in the Americas and EMEA did increase as there was a slight uptick in short activity."

The securities lending market is yet to win over ESG ETFs

Securities lending programmes do not generate enough income to be worth doing for exchange-traded funds (ETFs) that track environmental, social and governance (ESG) indexes, according to German asset manager DWS.

The need for restrictive collateral parameters and regular recalls creates "a number of other challenges and alters the economics of the securities lending function to the extent that it effectively erodes much of the potential revenue from lending," says DWS passive product specialist structurer Zeb Saeed.

DWS, which is majority-owned by Deutsche Bank, recently pulled the plug on the lending programme for one of its ETFs as part of its switch from tracking a traditional FTSE index to an ESG-friendly one.

The UCITS ETF, with $37 million in assets under management, has swapped the FTSE All-Share index for the MSCI UK IMI Low Carbon SRI Leaders Select index which tracks small and mid-cap UK entities with high ESG scores.

DWS tells SFT that 11 of its 250 UCITS ETFs are now tracking ESG indexes but the latest one was the first to be switched over and therefore the only fund so far to close a lending programme.

The asset manager also has 33 Xtrackers listed, of which eight are ESG focused.

The other ESG ETFs were either purpose built or did not lend assets before transitioning to an ESG index.

A spokesperson for DWS adds that the asset manager is "very focused on expanding our ESG ETF range".

Beyond the operational challenges of juggling ESG compliance and a lending programme, the fragmented nature of the sustainable financing sector makes it difficult to compare funds' performance, relative to standardised and more crowded indexes.

As a result, the less competitive environment means funds do not have to seek out additional incremental returns offered by securities lending programmes and other financing strategies.

Saeed notes that lending agents are capable of constructing bespoke ESG-friendly programmes with collateral rules and automatic recall facilities but concedes that this would make the assets unpopular with borrowers.

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"It all adds up to those wanting to borrow stocks being incentivised to borrow from funds tracking non-ESG benchmarks. These reasons, amongst others, lead providers to therefore not engage in securities lending on ESG ETFs," explains Saeed.

Meanwhile, DWS also suggests there is an ethical dimension to consider as investors seeking an ESG investment may have an issue with securities lending as it facilitates short selling.

DWS stresses it doesn't take a view on the ethics of the matter and only seeks to respond to specific investor demand.

Bpifrance switches IRS book to Eurex Clearing

The French public investment bank Bpifrance has transferred its entire portfolio of derivatives, composed mainly of interest rate swaps, from LCH to EU-based Eurex Clearing to avoid clearing complications arising from Brexit.

The end of the Brexit transition period on 31 December is expected to cause disruption to legal and regulatory frameworks underpinning the clearing of securities between UK and EU entities.

LCH was one of three UK central counterparties to receive approval from European regulators to continue activities in the bloc after the transition period ends but this licence is currently due to expire on 30 June 2022.

The derivatives portfolio transfer was made possible thanks to BNP Paribas which acted as counterparty and clearing broker for Bpifrance.

The portfolio was transferred smoothly and without any disruption or market impact, says Eurex.

ANNA and GLEIF expand ISIN-to-LEI mapping service

The Association of National Numbering Agencies (ANNA) has added almost a dozen additional jurisdictions to the open-source relationship files provided through the certified ISIN-to-LEI mapping service, bringing the total to 41.

ANNA, is a global member association that upholds the ISO principles by promoting, ISINs, classification of financial instrument codes, and financial instrument short names, for financial and referential instruments.

This certified initiative, which ANNA has undertaken with the Global Legal Entity Identifier Foundation (GLEIF), maps international securities identification numbers (ISINs) to their corresponding legal entity identifiers (LEIs).

The collaboration between GLEIF, ANNA and the national numbering agencies (NNAs) was launched as a pilot project in April 2019 with the aim of bringing these two ISO standards together to improve transparency and aid risk and exposure management.

The two entities are working to identify how existing workflows could be leveraged or modified for enhanced validation, resulting in GLEIF certification. Volumes of ISIN-to-LEI coverage have grown to 5.2 million active ISINs linked to almost 72,000 unique LEIs.

The linking of ISINs and LEIs has been endorsed by regulators, including the Financial Stability Board and the European Securities and Markets Authority.

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Twenty-two NNAs have joined the ISIN-to-LEI Mapping initiative to date with ISIN coverage across 41 jurisdictions.

The latest jurisdictions to join include Antigua and Barbuda, Bermuda, Bahamas, Belize, Cayman Islands, Curacao, Grenada, Marshall Islands, Philippines, Puerto Rico, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago and Virgin Islands (British). The partners say that more NNAs are "in the pipeline".

The ISIN-to-LEI mapping table is freely available to all without restriction, and links to the data are available on both the GLEIF and ANNA websites.

Global PSSL opens principles to market review

Global Principles for Sustainable Securities Lending (Global PSSL) is making its draft principles available for consultation.

Global PSSL was born out of the now-defunct Council for Sustainable Finance, a semi-autonomous entity connected to the International Securities Lending Association and chaired by Radek Stech, who also serves as senior lecturer at Exeter University.

Stech now serves as CEO of the not-for-profit community interest company, which has taken on the council's work in promoting global standardisation on environmental, social and governance (ESG) matters within securities lending markets.

The cornerstone of the project is the creation of a set of principles to assist financing markets to standardise their interpretations of what is ESG-friendly, known as the PSSL. These principles represent the collaborative effort of more than 40 beneficial owners, agent lenders, prime brokers, hedge funds, data providers and other organisations that have contributed their time and expertise.

Global PSSL has now opened its principles to public scrutiny with a survey, which runs until the end of January.

The review period will give the broader stakeholder base an opportunity to examine and comment on this key component of the Global PSSL venture.

Global PSSL says a further engagement event will be announced during the consultation period.

"Our industry participants have voiced their determination to manage their ESG agendas through self-regulation from the start," Stech says. "We have engaged with them on key issues such as collateral, short selling, and equal opportunity, to hone these principles into a workable voluntary code.

"We now welcome a cycle of refinement to ensure Global PSSL is fit for purpose."

Stech adds: "We recognise that our initiative is ambitious, but we also believe that the times call for, and indeed demand, a global solution to the issues of sustainability and inclusion. By grounding our work in the day-to-day experience of practitioners in the market, we are ensuring that whilst our aims may be high, we are developing practical ways to meet them."

Following this consultation the first version of these principles will come in the early Spring of 2021, although Stech says the principles will "evolve and adapt" over time.

Kenneth Gutwillig, executive director of the Global PSSL college of advisors, says Global PSSL will be informed "by uniting experts from diverse areas of finance, the college of advisors will contribute our expertise to ensure that Global PSSL remains relevant to the market, and maintains its endorsees' sustainability and ethical goals as a priority."

Roy Zimmerhansl, strategic advisor on global practice and outreach, adds: "These global principles represent a solid middle ground between various interests, both in terms of types of organisations but also diverse regions. Following the review, the principles should be applicable globally, and drive sustainable securities lending in the years to come.

LCH SA to clear for Oslo Børs derivatives market

LCH SA is now clearing for financial derivatives listed on Oslo Børs (OSE) derivatives market. OSE is Norway's only regulated market for securities trading.

Following the migration, five additional members trading financial derivatives on OSE are able to access the risk management benefits of clearing at LCH SA, with two existing clearing members extending their membership to clear the Oslo market.

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Eurex Repo sees MoM growth while GC pooling volumes fall

Eurex Repo saw growth of 88 percent, from €58.5 billion to €110.1 billion month over month for November while GC pooling volumes fell by 50 percent.

For November, term-adjusted volume in the GC pooling volumes were at €50.1 billion, down from €99.7 billion compared to the same month in 2019.

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More ESG news

ISLA puts ESG centre stage

ESG is likely to be the single biggest agent for change in the way we think about how securities lending programmes operate, says International Securities Lending Association CEO, Andrew Dyson.

ISLA's new steering group is split into four distinct pillars: thought leadership, advocacy, regulation and best practice, which will advance the integration of sustainable financing into securities lending.

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South Korea to tighten penalties for illegal short selling

South Korea's Financial Services Commission is considering revisions to the Financial Investment Services and Capital Markets Act that would mean traders will face a year in prison and a large fine for naked short selling.

Currently, illegal short selling activities are punishable with minor fines, but the amendments would see the penalties ratched up to KRW 500 million (USD 456,896) or up to the amount of short orders.

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LCH welcomes Clearstream as first Luxembourg member

Clearstream has become the first organisation from Luxembourg to become a clearing member at LCH RepoClear service to gain access to the large UK pool of cleared debt at LCH.

LCH RepoClear, which offers clearing for UK government bonds and repos, operates an open-access model, connecting to multiple trading venues and International Central Securities Depository's (ICSD).

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DTCC to create bolstered reporting solution

DTCC has acquired Publicis Sapient's Compliance Management Reporting System (CMRS), which will be integrated with the DTCC reporting hub service to "create the industry's most comprehensive pre-and-post-trade reporting solution".

The enhanced reporting hub service will provide an extensive suite of pre-and-post-trade reporting capabilities with the largest jurisdictional and regulation coverage, says DTCC.

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Admir Spahic, Frank Becker, Markus Büttner from left to right.

Vision: Accomplished!

Comyno is led by its founder Markus Büttner, Frank Becker and Admir Spahic

Comyno welcomes all readers to the year 2021 and talks about its vision for the innovative platform C-One and its successes in the area of blockchain technologies

Vision: accomplished! what's behind this?

First of all, we wish all readers a good and successful start to a new and exciting year, 2021.

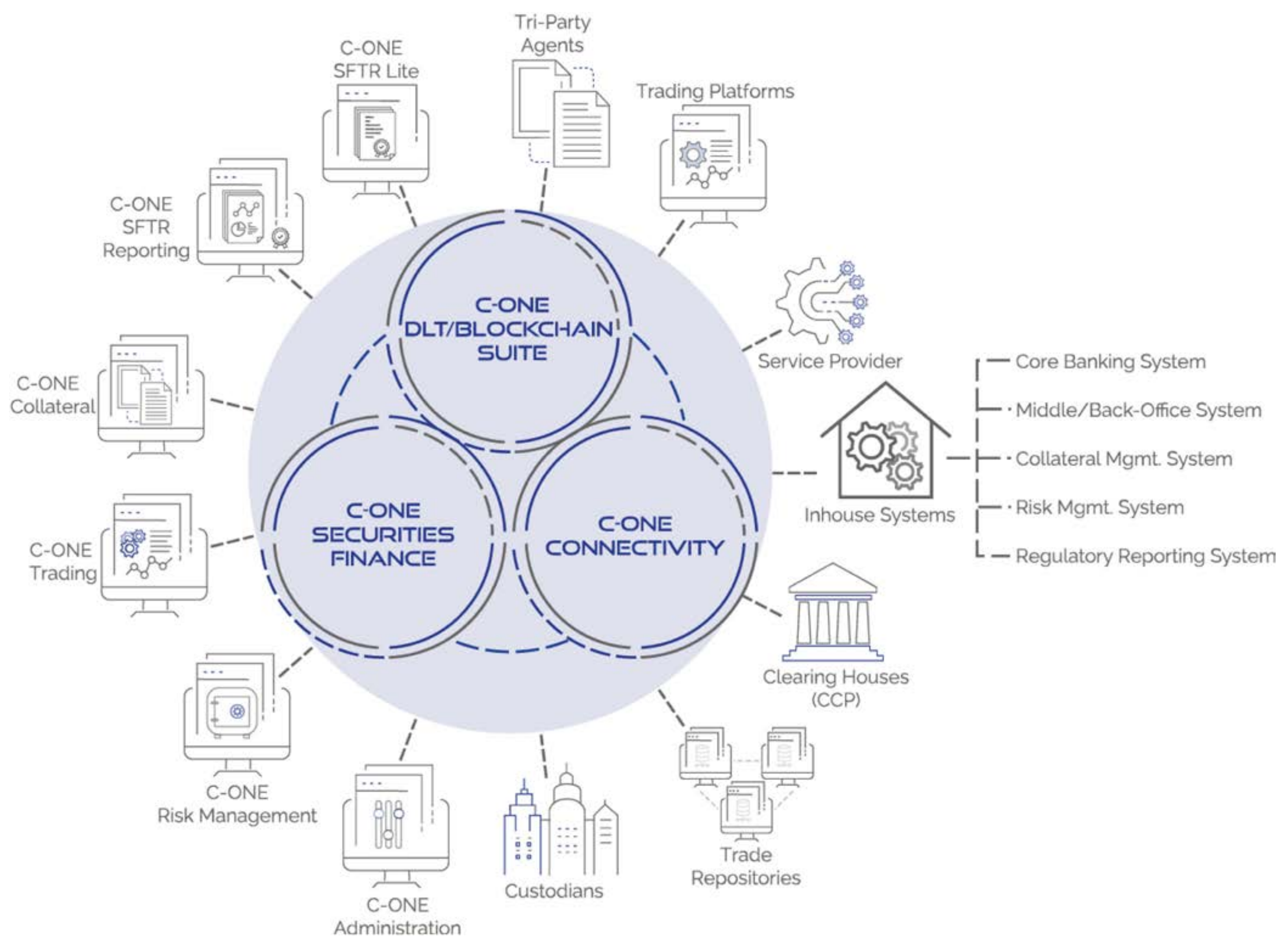
Our vision has been and will be to support the securities finance markets to become more efficient and more profitable for our customers. To achieve this, our firm strives to solve not only specific client problems but has always also driven business and technology trends affecting the market as a whole.

To explain the 'Vision: Accomplished' slogan, let us look back to 2016, where Markus said to SFT in course of an interview: "I expect there to be a time of coexistence between the legacy world and blockchain/distributed ledger infrastructures. We have already shown that we are able to support the transition with our ready-for-blockchain software. As we are connecting legacy market infrastructures with C-One, we can act as the 'enabler' to move from the current to the future world, step by step. Investment in the current experiments will pay-off for Comyno and the wider markets."

Now, at the end of 2020, we are in the foreseen position:
Within our C-One Securities Finance solutions, we merge the worlds of securities lending, repo and collateral management for 'traditional' and digital assets. Having connected C-One not only to traditional market participants, but also to most common blockchain and distributed ledger technology (DLT) infrastructures, such as Corda, Stella and Ethereum, we enable issuing and settlement of digitised traditional securities and native digital assets.

Consider the following: You and your client or counterparty could now manage a locate request, agree the terms of a lending trade, set-up or use a collateral schedule which could comprise traditional and digital assets, settle the transaction as a whole and, with our Securities Financing Transaction Regulation (SFTR) regulatory

Figure 1



reporting (including delegated) functionality, report the trades to the trade repository.

All this with a few clicks in one system and within a minute! And above all, already proven in production environments (see figure one).

Your focus in the past was on business consulting activities. Nowadays you are also running a company with its own software. An unusual combination, what can you tell us about that?

Basically, Comyno started in year 2006 as a pure consulting firm. It was, however, always our vison to bring new technologies and up-to-date solutions to the securities finance area, that traditionally was always lagging behind new evolutions. We actually see this as a fantastic combination: Using, together with our clients, the market and business expertise to form a software product, which delivers superior solutions for the clients is a great combination. You work closely together with the IT colleagues and can make an immediate impact on the software. You see the clients' needs being on the ground, combine this with the own experience plus the input from your other consulting colleagues and create a great solution. You can pre-empt challenges and deliver early solutions. It does not get better than this.

Could you tell us more about your software solution C-One?

The innovative C-One suite offers a complete solution for securities finance trading and collateral management, covering the complete value chain of the corresponding transactions.

It is built as a 'hybrid platform'- incorporating features for an in-house trading and collateral management system, a multi-entity and multi product platform across asset classes. This enables our clients not only to manage their whole securities finance business with C-One, but also grants online access to and for their clients and counterparts including white-labelling potential simply via web.

C-One provides seamless possibilities for position sharing, locates management as well as affirmation processes. Furthermore, clients and counterparts can see 'their side' of the trading activity as well as 'their side' of the collateral and exposure management. Even the profit and loss features can be used by all entities with access to the platform.

So, blockchain is not the only innovation?

One of the biggest cost drivers for the industry is the multitude of internal and external parties involved in securities finance transactions. The variety of software systems and IT components as well as a big number of manual workarounds and interfaces which are necessary to fill gaps lead to high inefficiencies.

Comyno has done no less than tackling this industry challenge for the benefit of our market with its solution: C-One with all its different modules is now covering the whole value chain, both from a business and technical perspective.

To stick to our 'one-stop shop' slogan, we included a SFTR reporting capability in 2020 into our product. As all our other functionalities, this was again built on a modular approach. The SFTR functionality can be used as a stand-alone tool connected to your in-house systems, or out-of-the-box for firms already using our full enterprise suite.

C-One provides out-of-the-box but modular and configurable connectivity to the securities finance market players combined with covering repo, securities lending, derivatives and collateral trade flows to fully automate a modern securities finance desk including regulatory reporting out of one hand.

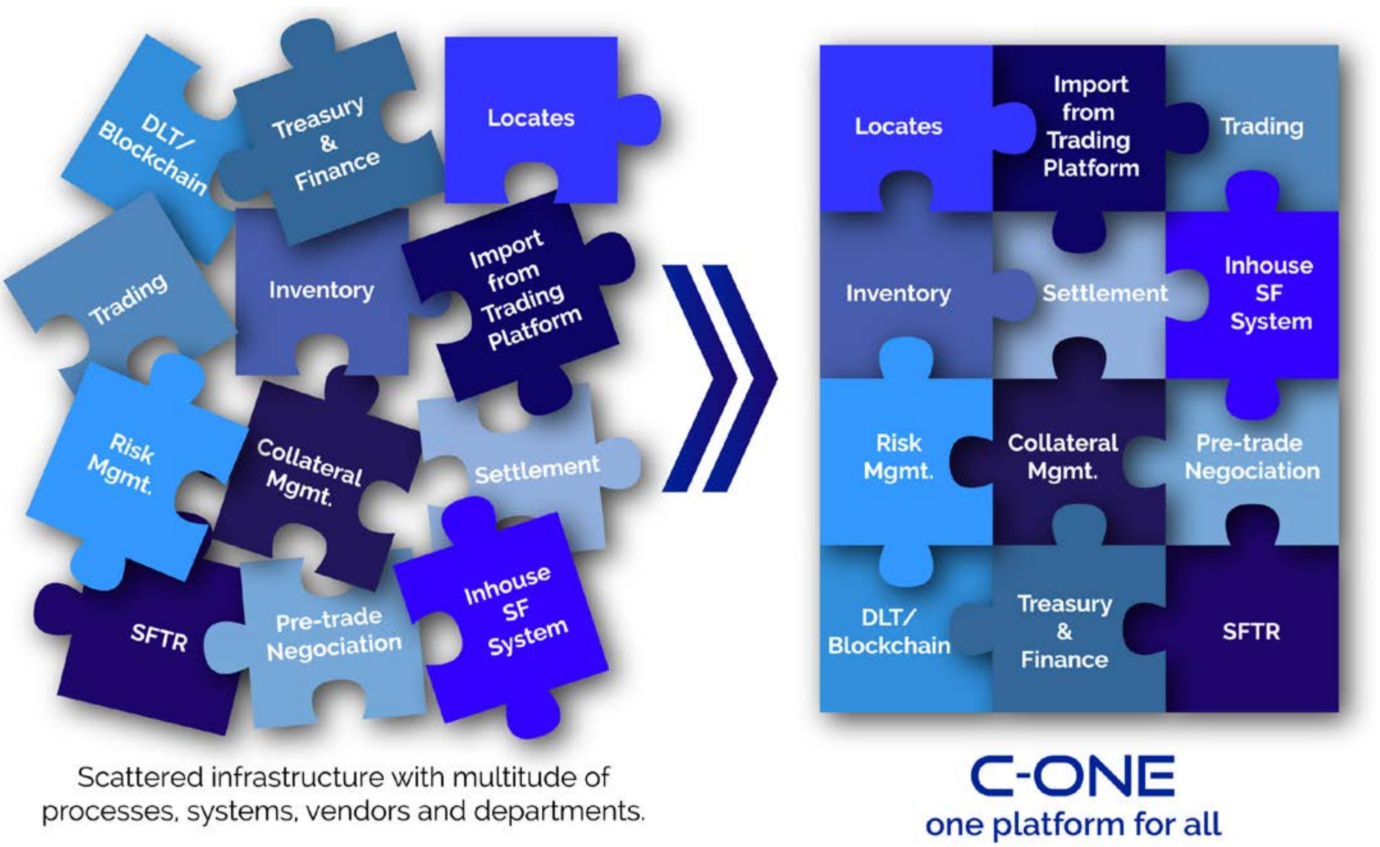
What module or tool of C-One do you see as important to have for a modern trading desk?

We actually see the locate manager as a necessary tool to at least start with. Structuring something that is only available unstructured and very diverse is great. There are thousands of emails with single or multiple security requests being spread every day. Every sender has his own way of putting the request with sometimes more, sometimes less information.

No trader is effectively able to handle these requests efficiently by reading the email, extracting the relevant data, comparing it security-by-security against the available inventory. When inventory was identified, to look up a current reference rate for a potential lending trade, making its own evaluation on the offer price and finally giving a response. Hence, multiple time-consuming steps for often a little revenue. Only scanning cursory for the requested securities might not consider some actual 'treasures' in the ever-changing inventory, no one is aware of.

Comyno's locate manager is hence a very powerful tool for both sides: The potential lender is improving the utilisation of his inventory and

Figure 2



increasing his revenues. On the other hand, the requesting entity has an improved chance of finding securities in the depth of the pockets of its trading network. The traders can focus on concluding the trade itself or more complex activities, while the laborious, time-consuming tasks are covered by the locate manager.

The installation of the C-One Locate Manager does not even require the implementation of a complex, much larger system environment. The dedicated module can be installed with limited interaction with existing technological framework of the lending desk – just basic static data, the available inventory and a connection to the email server to begin with. It generates a benefit already with limited efforts, and it can be further integrated into the overall architecture, if required.

Having achieved all this, what´s next on your agenda?

The emerging field of digital assets paves the way for us to add further modules to cover the full 'digitised' lifecycle – from issuing, registration and investment to asset management and secondary markets.

Within the next few weeks, there will be further news published together with our clients and partners explaining in more detail what we have already achieved.

That news will kick-start 2021 for us, and we are happy to start and continue discussions with interested banks, asset managers and all other parties interested in innovation and how to make profit out of it.

All I want for 2021 is ...

Natalie Turner reports

SFT asked 21 firms about their 2021 wishlist. Adapting to the new regulatory environment was the most popular answer alongside further modernisation and a return to normality post-COVID. Interestingly, ESG was not a dominant trend

For many businesses, the cacophony of challenges last year made the labours of Hercules look like a walk in the park. The intertwined pressures of a novel virus outbreak, economic chaos, rising rate of unemployment, a socially distanced Christmas, and a (sort of) conclusion to Brexit, added up to a troublesome 2020 for the majority.

Despite the onslaught, many businesses are still standing and have taken away some key lessons from the disruption that can be applied in the new year. Some of these ambitions have translated into a 2021 wishlist that, with a little luck and barring the wrath of Hades will lead to a much perkier 2021.

Of the 21 securities finance market participants SFT spoke to, the top wish is to have a bit of normality return. In particular, Maurice Leo, director of agency securities lending at Deutsche Bank, speaks for all of us when he says he would very much like to get back to drinking tepid coffee and consuming cold pain-au-chocolats with clients and prospects at industry conferences, as well as looking forward to renewing the mental dexterity challenge of fitting toiletries for an international business trip into an airline compliant carry on plastic bag. Another stressing factor adding emotional baggage is Brexit. REGIS-TR along with six other firms are hoping to have some breathing space after Brexit, and the majority of firms are looking forward to seeing the back-end of the ordeal. Elsewhere, despite several COVID-19 driven delays, the demanding regulatory agenda is easing and 13 firms surveyed are hoping that 2021 brings some stability to the regulatory reporting industry.

Finally, the pandemic has shown many firms within securities finance that the market needs to modernise. Market participants agreed that deploying advanced technology can enhance aspects within the industry and several are keeping a close eye on the development of the International Securities Lending Association's common domain model (CDM) initiative which completed its pilot phase in December and is expected to make further advancements this year.

Interestingly, despite the background noise of environmental, social and governance (ESG) growing substantially in 2020, only a handful of respondents singled sustainable financing out as something for the wishlist.

The more than two-dozen respondents are reviewed and analysed by category below.

Technology

Technology is finally democratising securities lending and with the help of a pandemic opening firms eyes up to the possibilities advanced technology can bring, "it's time to bring securities lending into the digital age," says Sharegain founder and CEO Boaz Yaari.

Yaari adds: "My hope for 2021 is that, post-COVID-19, we have a proper reset and refocus on what the next nine years will hold for securities lending. Regulatory changes won't be the biggest trend of the 2020s. This decade will be about user experience, application programming interfaces, settlements on a distributed ledger and greater access to this lucrative ecosystem for private and institutional investors."

Sunil Daswani, global head of securities lending, financial markets at Standard Chartered, backs this theory up, saying: "Securities lending as an industry, like many others, is anticipated to go through major changes in 2021 mainly by use of advanced technology". He explains that the deployment of technology will help efficient remote working, and they are expecting to see more cloud-based solutions across the business. Technology will also enhance ESG internal requirements to be applied when securities are loaned and collateral accepted. Blockchain and distributed ledger technology (DLT) will allow lenders to be agnostic of who the custodian is when lending securities and again transaction costs thereby being reduced.

Meanwhile, Delta Capita claims that 2021 is a year of overhauling knowing-your-customer (KYC). Tracey Allen, COO, CLM managed services explains that KYC processes are evolving to lower costs whilst still maintaining regulatory compliance, leveraging new innovative data solution technology which can reinvent the way data is collected and used.

If we take a look at the International Swaps and Derivatives Association (ISDA), its core strategic objective it has been to foster greater use of technology to increase efficiencies and reduce costs for both derivatives and securities financing transaction markets. Both ISDA and ISLA have done considerable work in 2020 to achieve these objectives.

Through the development of the ISDA and ISLA clause libraries, collaboration on the CDM – which establishes digital standards for trade events and processes – and expansion of our electronic contract opinions. Ciarán McGonagle, assistant general counsel on behalf of ISDA and ISLA, says: "We very much want to push this further throughout 2021, as both markets stand to benefit from greater digitisation of documentation, data and processes. Furthermore, ISLA is currently working to model and code specific securities financing transaction components for inclusion in the CDM, bringing them closer to creation of an industry wide, product-agnostic model for financial transactions.

McGonagle adds: "We very much want to push this further throughout 2021, as both markets stand to benefit from greater digitisation of documentation, data and processes. Ultimately, we are hoping that 2021 brings us closer to our vision of a digital future for our members and our markets".

Torstone Technology has a similar outlook and suggests firms are recognising the need to remove operational inefficiencies and legacy models from the middle and back office in order to create better, faster and more agile operations. "As we look ahead, firms must continue to re-evaluate their current processes with a view to better supporting remote working and dealing with continued market volatility, in addition to satisfying regulatory demands for improved operational resilience".
Elsewhere, LEI Worldwide are set on navigating the fundamental shift being brought on by DLT and central bank digital currencies. Darragh Hayes, director, LEI Worldwide, explains: "Our wish is that actors throughout the international financial system start to understand how Decentralised Finance solutions based on blockchain protocols are set to fundamentally disrupt the industry. The legal entity identifier is a critical part of that puzzle."

Globalisation

Outside of Europe, regulation has also significantly changed in Asia, where China loosened its Qualified Foreign Institutional Investor (QFII) scheme, a programme that allows specified licenced international investors to participate in mainland China's stock exchanges. The QFII programme allows foreign institutional investors to buy and sell yuan-denominated A shares of Chinese companies.

In this vein, eSecLending is looking to real advances during 2021 in the opening of a number of new securities lending markets for offshore participants, including the development of a clear roadmap for the lending of China 'A' shares.

Simon Lee, managing director, business development, Europe, the Middle East and Africa, and Asia Pacific at eSecLending, says: "Entering any new lending market is always exciting, and for early adopters like eSecLending, opening a new market for our clients can provide material revenue upside for their lending activities, as well it can open up lending opportunities for new clients with investment portfolios focused in emerging and frontier markets that may have not previously participated in lending programmes."

Regulatory changes

In the wake of the Securities Financing Transactions Regulation (SFTR) and other frameworks, not to mention Brexit adapting to a new reporting environment is, unsurprisingly, a priority for firms as we approach 2021.

Val Wotton, managing director of product development and strategy, repository and derivatives services at DTCC saat that adapting to a new reporting environment following the end of the UK's transition period, where firms will have dual SFTR, EMIR and MiFIR reporting obligations in the UK and EU, is a priority for firms in 2021.

"These new reporting obligations will likely require enhancements to reporting infrastructure and other improvements to post-trade processes," he explains. "Working in collaboration with other firms and with experienced service providers will help to ensure that organisations can achieve compliance with greater ease and certainty."

Matt Johnson, associate director, ITP product management at DTCC, adds that, in order to be ready for the February 2022 implementation

SDR deadline, market participants need to have already conducted an analysis of their post trade processes in order to expose any weaknesses, allowing sufficient time for them to be addressed.

He continues: "For those firms who intend working with an external provider to increase post trade efficiency, the selection process for this needs to have been completed by the end of March 2021, to provide ample time for onboarding and for testing to start in June, just over six months prior to SDR implementation."

In addition, with just one year remaining before the Central Securities Depositories Regulation's settlement discipline regime (SRD) enters into force, maybe, DTCC says firms must focus on improving settlement efficiency in order to avoid the cost of penalties for trades which fail to settle on time and firms should identify and address any weaknesses in their post-trade processes.

Those who plan to work with an external provider to increase post-trade efficiency should make their selection by March 2021, in order to have ample time for onboarding and testing, well before the February 2022 SDR deadline.

Sharegain's Yaari, believes that "2020 may have been the start of a new decade, but the industry's focus hasn't moved on from the 2010s: SFTR, CSDR, Markets in Financial Instruments Directive (MiFID) II, Brexit have continued to suck the air out of the room".

With the fourth phase of SFTR regulation coming into effect in January for the EU but not the UK, firms such as UnaVista and Caceis are looking for the market to keep up its focus on being ready for those final deadlines.

Catherine Talks, SFTR product manager at UnaVista, says: "We have seen some issues that have required working through, such as ensuring EU branches of non-EU entities are accurately reflected in counterparty reports. Non-financial parties located in the UK are not reportable under the UK regulation, however if they have a branch in the EU then that would be reportable under the EU regulation".

Dan Copin, head of equity finance at Cacies, also hopes that markets will manage to sufficiently optimise their trading strategies to better handle the complex reporting workflows that SFTR requires - for CSDR, implementation is just not going to be easy for anybody. Both firms stress the importance of continuing the strong engagement across the market to ensure a smooth go-live.

Ronen Kertis, CEO of Cappitech, says: "SFTR transaction reporting is complex and as the year progresses, the initial teething problems from the first phase of SFTR implementation will also need to be ironed out. To add insult to injury, firms will be managing this while faced with limited budgets thanks to the worldwide pandemic, as well as greater reporting demands coming from further updates to many existing regulations and the introduction of new reporting regimes."

Darren Crowther, general manager, securities finance and collateral management of Broadridge, also comments that the industry would benefit from final clarity and agreement on how partial settlements workflows will impact the downstream market utilities and SFTR report.

Deutsche Bank's Leo suggests that the CDM has the potential to "substantively transform the manner in which we negotiate and manage documentation and transactions in the future. The standardisation features and industry collaboration that underpinned the delivery of SFTR will support the continued advancement of CDM in our industry."

Moving away from the headline act of SFTR, Leo adds that series five of Uncleared Margin Rules (UMR) is highly anticipated. The plot thickens, as institutional investors have to manage the competing affections of securities lending, repo and collateralisation requirements. It will be a busy finale but we expect a happy ending as institutional investors gravitate towards outsourced trading solutions offered by agents such as Deutsche Bank'.'

Elsewhere, the Alternative Reference Rates Committee (ARRC), says 2020 ended strongly as US and UK regulators, and LIBOR's administrator, made a series of announcements which collectively proposed an endgame for the US dollar LIBOR.

The ARRC is a group of private-market participants convened by the US Federal Reserve Board and the New York Fed to help ensure a successful transition from US dollar, and the London Interbank Offered Rate (LIBOR) to a more robust reference rate,

Significantly, the committee notes that part of this rate transition endgame was supervisory guidance encouraging banks not to enter new LIBOR contracts after 2021.

Tom Wipf, vice chairman of institutional securities at Morgan Stanley and chairman of the ARRC, explains: "This endorsement of ARRC's position has made our wishlist for 2021 shorter, but at the top of it remains the need for a legislative solution for "tough legacy" contracts. A legislative solution in 2021 would mark a major milestone in the transition away from LIBOR."

ESG

Many if not all agent lenders identify ESG as an important area that needs to evolve within their securities lending programmes to help asset owners better understand their options in this arena. In early October a survey of 44 leading institutional investors revealed that almost all respondents believed that securities lending activities can coexist with ESG principles, according to the Risk Management Association (RMA).

ESG regulations will start to take effect in 2021 with the Sustainable Finance Disclosure Regulation (SFDR) commencing in the EU, requiring asset managers to categorise and disclose their funds according to climate and wider environmental criteria. Regulators are also consulting on ESG in Hong Kong and Singapore.

Sebastien Danloy, global head of asset owners and managers, markets and securities services at HSBC, says: "In 2020 ESG investing went from niche to norm with greater inflows and much interest from our clients. We have launched an ESG portfolio reporting product which offers a choice of leading ESG data providers, so that the differing results can be easily compared, to provide meaningful insights for our clients until quantitative ESG data becomes available."

Mark Snowdon, head of capital markets, Asia Pacific, for Northern Trust, says: "securities lending is no longer a standalone product. In 2021, we expect securities finance will become a key driver of asset owner/manager decisions around the appointment of asset servicing providers. Northern Trust is committed to delivering a holistic solution allowing its clients to optimise their investments across the value chain and for a wide range of purposes."

Scott Brown, director of business development at Pirum, concludes: "Early 2021 will not be materially different to 2020. I cross my fingers for the adoption and impact of the various COVID-19 vaccinations, as this will be definitive in boosting the global economy. The securities finance market will still see many firms with personnel working from home full-time to the end of Q1.

"Without commuters and travel, oil prices will not reach pre-COVID levels and ESG will remain a key focus for the industry and become more intrinsic to the practice of firms transacting SFTs. With the latter phases of UMR and CSDR coming in the next two years, the adage remains; "An ounce of prevention is worth a pound of cure."

Conclusion

With Brexit in the rearview mirror, regulatory change headed our way and technology looking to speed up and efficiently change the way we work within securities finance, 2021 is looking like more than just a silver lining around the dark cloud that has been 2020. As David Raccat, co-founder and head of EMEA at WeMatch, puts it: "The industry is clearly at a turning point, it is more receptive to change and the pace will accelerate once the sanitary crisis is behind us for good. The journey towards more transparency is only at its beginning and electronification of the business will help to provide more accurate information to all categories of players." Raccat believes transparency will accompany the industry into its digital journey and it has never been so exciting and the perspectives are extremely encouraging.

Crunching number

Twenty one market participants responded to the wishlist survey

The Alternative Reference Rates Committee, CACEIS, Broadridge, Cappitech, Deutsche Bank, DTCC, Delta Capita, eSecLending, HSBC, International Swaps and Derivatives Association (ISDA), International Securities Lending Association (ISLA), LEI Worldwide, Northern Trust, Pirum, REGIS-TR, Sharegain, Standard Chartered, Torstone Technology, UnaVista, WeMatch

- Thirteen firms agreed that regulatory change and adapting to a new reporting environment was at the top of their wishlist for 2021
- Seven firms would be happy to see the back-end of Brexit and it would put them at ease to settle into the new reporting obligations after the UK's transition period
- Seven firms agreed that technology is going to revolutionise securities lending
- Surprisingly, only three firms mentioned ESG being implemented into its securities lending programmes was on the top of their wishlist

Spoilt for choice

Drew Nicol reports

Would securities finance and derivatives markets benefit from a consolidated master agreement? The International Swaps and Derivatives Association thinks so

Since time immemorial, securities finance and derivatives have used separate master agreements as legal frameworks to trade by, and never the twain shall meet, until now.

In 1987, The International Swaps and Derivatives Association (ISDA) produced three standard master agreements for various forms of interest rates and currency swaps, which together became the ISDA master agreement.

In the early 1990s, the International Capital Market Association (ICMA) published the global master repurchase agreement (GMRA) to aid its members in executing repos globally.

Around the same time, the International Securities Lending Association (ISLA) did the same for its own members with the global master securities lending agreement (GMSLA).

Since then, all three have become the default legal frameworks for their fields. In its latest market survey of the majority of significant players in the European repo market, ICMA found that 74 percent of master agreements used by respondents for repos were written on GMRAs.

The documents have been updated several times over the years to evolve alongside the market but largely they all stayed within their original remit. The ISDA master agreement is slightly different in that it is constructed with what the association describes as an “open architecture” meaning it allows for many types of transactions to use it, including securities financing transactions (SFTs), but, it’s still predominantly a tool for derivatives.

Now, ISDA has laid-out plans to harmonise documentation across the markets by amending its framework to more easily allow securities finance transactions to use its master agreement instead.

The three associations regularly pool their resources and collaborate in lobbying efforts to present a united front to market regulators, but on this occasion, ISDA has struck out on its own with a dedicated working group made up of its members focused on the project.

In a whitepaper — Collaboration and Standardisation Opportunities in Derivatives and SFT Markets — the trade body proposes a set of SFT-related provisions to be added to the schedule of the ISDA master agreement, along with the publication of an SFT definitional booklet.

The aim, according to ISDA, is to create "significant benefits" including increased operating efficiency by reducing duplicative efforts, scaling legal work and digitising/automating processes. It would also potentially reduce credit risk by facilitating collateral payment netting and expanding close-out netting sets, which could favourably impact firms' capital.

Additionally, developing common standards and taxonomies would facilitate automation and interoperability across derivatives and SFT markets, and enable a consistent trade record for confirmation and reporting on a broad scale, ISDA says.

This jives with the trade body's other major project for the year which is the further development of the common domain models (CDMs), which also seeks to standardise derivative and, in a partnership with ISLA, SFT market features and improve automation and straight-through processing.

In the whitepaper, which came out in October 2020, ISDA acknowledges the "significant challenges that market participants would confront on the road to increasing collaboration and standardisation across the derivatives and SFT markets".

Moreover, the transition by a particular market segment to a newly-derived definition of a term for use across markets would need to factor in whether and how a legacy book of business can and should be migrated to the new standard, and how that might influence the adoption of the new term, ISDA adds.

ISDA notes that its claim of potential capital saving opportunities comes from feedback from individual members, not a case study or specific modelling exercise by the association to quantify the effects of a documentation switch.

"We recognise that any joint legal work would need to preserve the unique characteristics of the derivatives and SFT markets, which will require close attention," said Katherine Tew Darras, general counsel at ISDA, at the time of the paper's release.

"However, this proposal would result in greater efficiencies in document negotiation and management, create netting benefits to help firms reduce risk and optimise collateral use, and allow documentation updates to be rolled out consistently for different products at the same time."

Should I call my lawyers?

The question of whether the two markets would benefit from a universal master agreement is not a new one. All three associations have broached the topic with their respective members periodically but, for ISDA at least, the time to take that beyond the realm of the hypothetical is at hand.

ISDA's senior counsel for the Americas Mark New tells SFT that the inspiration for the project may have come from its members but he does not expect or want the securities finance industry to abandon the GMSLA/GMRA formats.

"We've been trying to channel the feedback we've received from our members that it would be useful for them to have a tool that allows them to combine derivatives and SFTs into a single document," he says. "That's not going to be the case for everyone, however, and the benefits don't apply to all counterparties in the same way."

"We don't have an ultimate goal of who should use this or when. Instead, we are taking our members' desire to have this tool and trying to clarify the benefits of doing this as we are aware there are significant costs in launching new documentation," he states.

In contrast, ISLA says it is also in the middle of a detailed legal survey of its 120 members on the framework that underpins the industry moving forward, including asking questions on the consolidation of master agreements, but so far the responses indicate that it's not a priority for the securities lending world.

ISLA's CEO Andrew Dyson says: "If you were to design a market from scratch this is not a bad idea, conceptually and intellectually, a single agreement that covers multiple products is clearly very compelling. However, we aren't in that space and the world isn't that straightforward."

Other industry stakeholders also argue that a one-size-fits-all document is good in theory but many are concerned the scale of the task offsets the potential benefits.

ISDA's New also agrees that "if you're starting from a blank slate then it would be a no-brainer to go for a consolidated document but we're not, so how much of the market will pick this up is unknown".

All three associations' spokespersons agree that the project may be useful to some, but there isn't a consensus on how many. Scenarios where an ISDA member that primarily deals with derivatives but wishes to expand into SFTs was offered as one example.

Alternatively, counterparties entering a new relationship may also opt for the ISDA model if it was what they were more comfortable with.

However, ICMA chief executive Martin Scheck states: "The market is already subject to significant repapering challenges from a regulatory perspective and there simply isn't appetite from our members to impose such an additional burden for no meaningful gain."

When asked if the three agreements could co-exist after ISDA expanded its documentation, New suggests that they could and would.

"No one expects a massive change in peoples' documentation practises just because there is a new document out there," New states. "There are benefits, such as limiting the number of legal opinions you have to manage, and there are also costs."

"There doesn't need to be a big bang adoption. If people find it a useful tool then they can use it," he adds.

Industry stakeholders voiced concerns that the introduction of an alternative SFT master agreement goes against the grain of consolidation that's been a primary aim of several market initiatives in recent years and risks reintroducing fragmentation. Ideally you would want want all your trades in a certain product under the same legal framework and ideally the same version of the framework, which is difficult enough.

A full plate

Sceptics of the initiative are also pointing to the fact most market participants will have their hands full juggling Brexit, potential last-minute changes to the Central Securities Depositories Regulation (CSDR), the final phase of the Securities Financing Transactions Regulation and the on-going pandemic, to name just a few challenges, before taking on another repapering exercise. This is especially true given the first two in the above list already represent a massive legal undertaking on their own.

Like Scheck, Dyson stipulates that the scale of the repapering task of switching to the ISDA master agreement would be “immense”, especially without clarity on capital gains from making the switch. He further notes that the current climate is one where banks are not short of capital and are in-fact quite risk-averse.

Dyson adds that there are hundreds of entities using ISLA’s agreement and if they are comfortable that they are getting adequate legal protection for their SFTs then there will have to be quite a seismic shift to change that.

“My experience of documentation changes is that it only happens if there’s a regulatory imperative, such as with CSDR,” he says.

“CSDR is a nightmare of a task and you’d never do it unless you had to. Alternatively, something would have to go badly wrong with the legal construct which is unlikely with the GMSLA because it’s been around for many years and tested in court.”

However, one man’s hurdle is another’s stepping stone. Part of the repapering requirement effort driven by Brexit comes from the fact EU-based entities will no longer be guaranteed protection under agreements based on English law, which includes the GMSLA and GMRA.

Here, New advances the point that regulation has the advantage of having a fixed deadline people must transition by but it is not the only thing that can lead to documentation change.

“ISDA has updated its documents several times and those have been taken on through an organic process driven by two clients entering into a new relationship, for example,” he says.

New states that Brexit and the introduction of final phases of the Uncleared Margin Rules which demand margin be posted for over-the-counter derivatives, could inspire firms to switch to an ISDA agreement for their SFTs, which supports French and Irish law as well as English.

As rules requiring margin or other forms of collateral continue to come into effect, ways to manage assets more efficiently will become more attractive, he adds.

Speaking of law, should securities finance market participants be concerned about whether the new agreement is as watertight as a GMSLA in court?

“There’s always a chance with these new untested master agreements that a judge might take a different view on something, such as cross-product netting, for example,” Dyson observes. “That’s not to say the ISDA agreement or any other won’t work but until you’re sat in front of a judge you’ll never really know.”

New does not share this concern. “The ISDA master agreement architecture is really open and isn’t prescriptive in the types of transactions that can be put under it,” he counters. “We are very confident that you could put an SFT under it and that wouldn’t undermine its contractual effectiveness.”

Where next?

Following the whitepaper’s publication, ISDA has been in feedback mode. No fixed timeline exists for next steps and New warns that a project such as is are no small endeavour.

Once the association has digested the market’s reaction it will decide what the appropriate next steps are, he says.

Either way, if ISDA’s significant membership is driving the push for easy access into the SFT sphere, that can only be a good omen for all market participants. Whether by an ISDA or a GMSLA, all roads lead to Rome and a busy market means greater liquidity.

Hot dogs and other market bubbles

David Lewis
Senior director
FIS Astec Analytics

What did the 2020 lockdown puppy-rush and securities lending have in common, and what lessons can be learned heading into a new year?

Looking back at 2020 is a position many have been looking forward to, based mostly on the belief that just being in a different year would be enough to make a difference. There is, indeed, much about 2020 that should be consigned to the rubbish bin and perhaps forgotten as quickly as possible, but there are also many lessons to be learned.

Some simple rules will never change

Where demand exceeds supply, prices will rise. This maxim proved itself both in the access to hot stocks in times of market stress as much as it did in toilet roll and puppies. Lockdown has had several curious effects on the people that experienced it and, in the UK at least, that impacted the price of dogs. The seemingly obvious response to spending more time at home for many was to get a dog, which resulted in the average price of a new puppy in the UK doubling to £1,875, with the jump in prices largely resulting from the very slow response to the change in demand.

Puppies weren't all that changed. With the market volatility that affected the first few months of 2020, there was a frenzy of activity around the shares of companies exposed to the full force of the lockdown and its effects on travel, leisure and retail spending, at least in the case of brick-and-mortar retailers. The plummeting valuations of many such companies attracted strong borrowing activity and, therefore, strong revenues for securities lenders as well as those enabling the transactions.

Lendable inventory across 2020, especially in equities, was up compared with 2019. With levels of demand remaining relatively static, outside of regional and asset class variations, the unavoidable result was a reduction in the overall fees earned. At the time of writing, incomes are beginning to recover with November showing an improvement and the outlook for the rest of December trending positive.

So, in contrast to the UK puppy market, excess supply meeting stagnant demand has meant that as lendable supply increased, so average borrowing rates declined.

The market is changing

While it is logical to say that the quite astonishing bull run we have witnessed in many stock markets will have had short sellers sitting on their hands, limiting exposure to rising share prices and not borrowing shares to short, this may not be the only thing that is affecting demand in the securities finance market. Rising asset prices benefit lenders and their service providers. Looking back across the end of 2020, the S&P 500 rose some 65 percent across the nine months from March. Over the same period, the Euro Stoxx 600 increased by 37 percent. It follows that the higher the value of loan, the more to charge a fee or rebate against.

But just like short selling profit calculations, it all depends where you start from. While those indices have recorded significant gains, they do not have the same net outcome. At the time of writing, the Euro Stoxx 600 was down a net 2 percent on the year and 10 percent below its 12-month peak. For the S&P, it is up some 18 percent on the year, which perhaps says more about benign government policy and the arrival of numerous vaccines than true market values, but the impact on lending revenues will be positive, particularly when combined with the very low yields on US treasuries.

With rising asset prices providing some relief for stagnating demand, will 2021 be better for securities lending than 2020? That might be a yes, but only if one or both of the following occur:

Firstly, the demand side of the market must stay the same in nature. Those wishing to take a negative view of the price of an asset must return to the securities finance market and the existing transaction chain to facilitate that position. To do this, they have to ignore the growth in options, contracts for difference and other mechanisms to create advantages when asset prices fall. If they are looking to create a short position in the traditional manner, they must advise their broker not to internalise that trade and instead seek supply from the traditional channels, and be sure to avoid any peer-to-peer platforms that seek to streamline the traditional transaction chain.

Secondly, the bubbles in stock markets need to risk a burst, attracting short sellers back to the market and increasing the demand to borrow shares. With many indices at record highs, particularly in Asia where, for example, the South Korean KOSPI is at an all-time high (and, incidentally, where short selling is currently banned), there is arguably ample room for a correction which may bring a bonanza for lenders and short sellers. But may not – see the previous point.

Change is vital for success

Making sense of the changes happening to and around the securities finance market is vital if it is to adapt to the pressures placed upon it. There are a number of bright lights on the horizon, such as new markets opening up or expanding their operations in securities finance, including the Middle East, China and India. New markets bring optimism and new vigour – and, of course, attractive fee levels compared with more mature markets. Further, the final phases of the Uncleared Margin Rules will bring further demands for collateral to smooth and secure the way other parts of the financial market operates. There is also a great deal of effort being put into improving market automation and efficiency, which is the logical response to a market with pressures on revenues and costs. Increased automation will allow for more efficient transactions at the point of trade, lower maintenance and failure costs, and improved — or at least protected — margins.

A bursting stock market cannot be relied on for revenue projections in 2021, particularly given the optimism of economic recovery that the arrival of effective vaccines appears to be bringing, but the other headwinds and challenges that the market faces in the ‘new normal’ must be addressed. With the speed of change increasing, time to meet market demands will be vital. To take too long will miss the opportunities presented. No one wants to be left offering new puppies just when everyone has gone back to work.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Latest appointments at HSBC, State Street and Cappitech

State Street has appointed Staffan Ahlner as global head of Collateral+, a part of the bank's funding and collateral solutions group.

Ahlner previously led BNY Mellon Markets' global collateral management business as part of a 22-year career with the bank.

State Street says Ahlner will enhance the Collateral+ team to build on its core collateral management capabilities and develop future collateral management solutions.

He will report to Gino Timperio, head of funding and collateral solutions for State Street Global Markets.

Elsewhere, Yalini Isweran joins State Street from BNY Mellon's strategy team to focus on product innovation and business development for the bank's suite of global financing and collateral solutions.

Isweran will now develop solutions that aim to address the collateral, trading and liquidity challenges of State Street's clients.

At State Street, they join James Day, who swapped BNY Mellon for State Street in September.

Day, based in London, is responsible for delivering new products, managing regulatory change and providing business solutions and reports to Martin Tell, global head of securities finance.

The latest hires follow State Street's regulatory readiness survey of 300 asset managers in 16

HSBC Singapore appoints head of securities services

HSBC Singapore has appointed Noor Adhami as head of securities services Singapore, effective 1 February.

Adhami joined HSBC in 2004 and for the past four years has held the role of regional head of global liquidity and cash management for the Middle East, North Africa and Turkey.

During this time Adhami also concurrently headed the securities services business for an interim period.

In her new role, Adhami will report to Brian Godins, head of securities services Asia Pacific, and Gavin Powell, head of markets and securities services Singapore.

Commenting on the appointment, Godins says: "I am delighted to have Noor join us as the head of securities services in Singapore. Singapore is a key market for securities services and plays an influential role in our broader Association of Southeast Asian Nations strategy."

Godins continues: "Noor's passion, experience and expertise across wholesale and transactional banking, and Adhami's focus on embracing innovation and the digital agenda, will enable us to refine our strategy in the region to capture new business opportunities and build on our strong momentum."

Powell adds: "Singapore is increasingly becoming a prime international wealth and investment centre. Noor's experience will deepen our expertise in the republic and enable us to support our clients across the full spectrum of propositions."

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countries which found that 81 percent of those questioned are "unprepared to comply with all facets" of the Uncleared Margin Rules (UMR).

The final two phases of UMR are due in September 2021 and September 2022, respectively, and are aimed at reforming the over-the-counter derivatives market.

"We understand that this is a critical time for buy-side firms of all sizes and that UMR continues to be a pressing challenge, and are very pleased to have Staffan and Yalini joining our team to further strengthen our collateral management capabilities," says Timperio.

"Their strategic experience across multiple markets will bring immediate value to our clients who are seeking to optimise their assets."

John Pearce is stepping up to become the Australian Securities Exchange's (ASX) new head of settlement and collateral in its derivatives and over-the-counter (OTC) markets team in Sydney.

He will be responsible for Austraclear, which provides settlement, depository and registry services for debt securities and cash transactions, and the ASX collateral tripartу repo and collateral management platform.

Pearce was previously the manager of settlement and collateral for just over three years before his promotion. Prior to that, he was the business development manager, a title he held for just over one year.

He replaces Philip Joyce, who has left ASX to become the new CEO of Sympli, the property e-settlement business that ASX launched with InfoTrack in 2018.

Before ASX, Pearce worked for J.P. Morgan from 2011 to 2016 in a variety of roles including product manager, product development manager and business project management in collateral management.

Cappitech has appointed Fabrice Bensimon as sales manager for Switzerland, France, Luxembourg and Belgium.

Bensimon joins Cappitech from ICE where he spent eight years as regional sales manager for Switzerland and Lichtenstein, originally at Super Derivatives prior to its purchase by ICE.

Previously, he worked at Euronext as a key account manager and initial public offering financial analyst.

Commenting on the hire, Ronen Kertis, CEO and founder at Cappitech, says: "The growth of our sales and client-focused team is a source of pride as we continue to work with new clients around the globe."

"Over 2020, the larger team was able to successfully sign and onboard a higher number of new customers than ever before, with no delays due to COVID-19 or the unexpected closure of CME's business. Fabrice Bensimon's experience across French-speaking Europe will ensure we continue to maintain and further improve this level of service as our business continues to grow."

Bensimon adds: "I am delighted to have the opportunity to join Cappitech, a fast-growing, well respected leader in the Industry. I look forward to helping the French-speaking market easily access Cappitech's award-winning transaction reporting solutions and provide them with a unified platform for all reporting regimes."

Delta One has appointed two new members to the company's advisory board, Michael Pascutti and Jonathan Bloom.

According to Delta One, visibility into the securities lending market has never been in more demand, and the new advisors' expertise will help develop a robust product and will continue to be invaluable as well as continuing to "enrich the company's offerings".

Pascutti, who is based in New York, is also joining Delta One as head of quantitative analytics. He currently teaches finance in the economics department at Yale University and is a financial services veteran.

Prior to that, he was CEO at Eagle River Asset Management, a credit-focused hedge fund, for five years. Before then he was a portfolio manager at PIMCO for nine months.

Bloom, also based in New York, has over 25 years of capital markets experience, he is currently chief operating officer and co-founder of Stone Forest Capital, a global emerging markets equities investment advisor.

He is also a co-founder of the Chicago branch of Hedge Funds Care, a philanthropic organisation established to benefit abused children.

Bloom worked with Pascutti at Eagle River Asset Management, previously serving as chief operating officer and was a co-founder.

Before then, Bloom was a managing director at Citigroup and Bank of America Securities, where he served in a variety of client facing roles. Before that, he was a senior manager at Arthur Andersen and a member of the Chicago Board of Trade.

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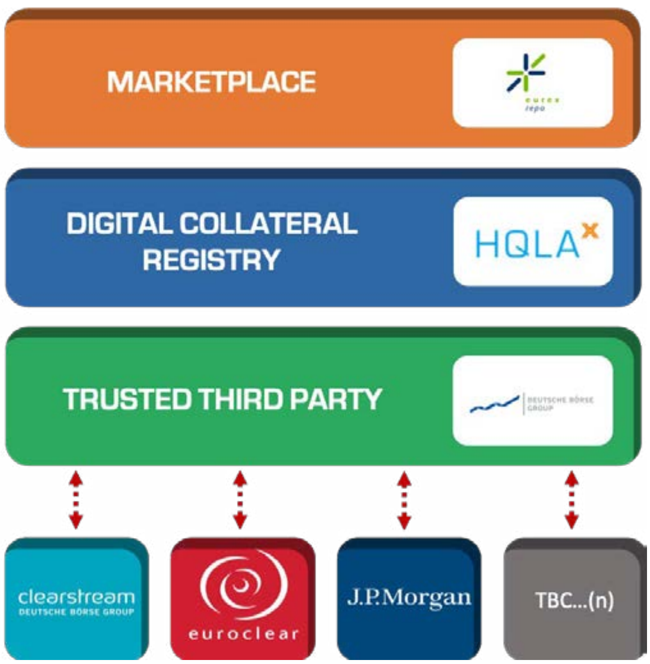

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