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Adapting to the new world

Wematch's Shane Martin speaks about the future of securities finance trading and the centrality of technology to business success

European Commission issues Interim Report on CSDR

The European Commission has released an interim report on the Central Securities Depository Regulation (CSDR) to the European Parliament and European Council.

This follows a targeted consultation process which ran from 8 December 2020 to 1 February 2021, to which 91 stakeholders responded.

The report indicates that the Commission will consider proposing a REFIT legislative review of CSDR subject to an impact assessment.

This impact assessment is expected to run during the second half of 2021.

The Commission finds that, in broad terms, CSDR is meeting its original objectives to boost settlement efficiency in the EU and to promote the stability and resilience of CSDs.

Respondents to the consultation process highlighted weaknesses in specific rules embedded in CSDR, including those relating to cross-border provision of services, the operating framework for third-country CSDs, and access to central bank money.

The Commission recognises some of these issues need to be resolved and it indicated in its CMU Action Plan, adopted in September 2020, that it will consider amendments to improve cross-border provision of services.

Significantly, the Interim Report concludes that it is appropriate, subject to the impact assessment, to consider proposing amendments to the settlement discipline framework, and particularly to mandatory buy-in rules, under CSDR. These are due to take effect on 1 February 2022.

The report says that the settlement discipline rules in CSDR attracted most attention from respondents during the targeted consultation, with almost all respondents providing feedback.

These rules will introduce cash penalties for CSD participants that are responsible for a failed settlement. Mandatory buy-in procedures will be applied when a CSD participant fails to deliver a security within the required timeframe (i.e. within a fixed extension period).

The Commission proposes that amendments to these settlement discipline rules may be necessary to make them “more proportionate and to avoid undesired consequences”.

Reflecting on feedback from the market during the consultation process, the Interim Report reveals that the vast majority of respondents believe that buy-in rules should be reviewed,

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European Commission issues Interim Report on CSDR

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with a sizeable majority stating a preference for voluntary buy-ins rather than mandatory buy-ins.

Respondents indicated that mandatory buy-ins would reduce market liquidity, add to costs for investors and place EU CSDs at a disadvantage when competing with third-country CSDs that are not obliged to comply with these rules.

Most respondents said that mandatory buy-ins would have had a negative effect on market operations during the market disruption triggered by the Covid-19 pandemic.

The Interim Report also proposes that clarification may be required for cash penalty rules.

The European Parliament, in debating the development of the Capital Markets Union, has also invited the Commission in a resolution of 8 October 2020 to review the settlement discipline regime in the context of Brexit and the Covid-19 pandemic.

NGT securities finance platform adds new counterparties

EquiLend has announced the addition of six new counterparties onto its NGT multi-asset trading platform for securities finance markets.

BBVA becomes the first counterparty from the Spanish market to connect to NGT.

Two new Japanese counterparties, au Kabucom Securities Company and SMBC Nikko Securities, add to the growing list of Japanese brokers and lenders active on the platform.

Desjardins Trust, Leonteq and Union Investment reinforce NGT's coverage in North America and Europe.

EquiLend CEO Brian Lamb says: "Each joiner to NGT can tap into the global securities finance market more efficiently and leverage the benefits of our digital trading platform. The market will experience enhanced liquidity with the addition of new borrowers and lenders on the platform."

EquiLend reports that average daily transaction notional value on NGT exceeded $100 billion in Q1 2021 from more than 100,000 transactions every trading day.

MarketAxess expands client portfolio trading platform

MarketAxess has enhanced its client-facing portfolio trading platform.

The electronic trading platform now includes support for multi-directional lists and multi-currency lists, giving clients a streamlined workflow to execute single, list and portfolio trades according to their preferred strategy.

The enhancements work with existing list request for quote (RFQ) functions and integrated net spotting capabilities are available through MarketAxess' trading protocols, including portfolio trading.

The provider of market data and post-trade services for the global fixed-income markets says portfolio trading accounts for 3.8 per cent of the US High Grade and US High Yield TRACE volume — a small but growing portion of the US credit market with approximately $1.5 billion in average daily volume.

Since the technology's release in late May, more than 50 portfolio trades have been completed on MarketAxess with 17 unique investor firms and nine dealers, the firm says.

MarketAxess global head of sales Kevin McPherson says: "We've seen a steady but important increase in client adoption of portfolio trading since enhancing our service. Certainty of execution across a broad basket of instruments has become more important to our clients, particularly at the illiquid end of the spectrum.

"We've enhanced both our pricing data and our portfolio trading tools to provide a complete set of efficient tools to address clients' execution objectives."

Sharegain releases new platform to ease challenge of borrowing securities

Sharegain has launched a new platform which aims to improve real-time access to loan securities and to enhance efficiency across the loan transaction lifecycle.

Driven by several months of consultation with securities lending, Sharegain says that the platform is designed to target traders' needs and to reconfigure workflow through a user-focused end-to-end solution.

"The new borrower platform provides traders with real-time availability, enabling them to

borrow in an instant. Each feature is designed to match how traders are working every day," says Sharegain's demand manager Tim Fox.

"Sharegain recognised that the industry's future depends on connecting lenders and borrowers seamlessly," says Sharegain founder and CEO Boaz Yaari.

"With this launch, we are creating a better experience for traders and a better result for our beneficial owner clients," he adds.

According to UK-based securities finance specialist Sharegain, the release of this new service aims to bring the user experience for securities borrowers "into the digital age".

In a supply-constrained, demand-driven market, the new generation of agency lending solutions must be fully automated, meeting borrower demand in near to real-time and built in partnership with users, says Yaari.

HQLA^x secures Series B investment from J.P. Morgan

J.P. Morgan has become a strategic investor in the Series B funding round for securities finance platform provider HQLA^x.

The funding will be used for accelerating market adoption of the HQLA^x platform by expanding product scope and functionality, while further extending connectivity to theindustry.

In January, HQLA^x closed a €14.4 million strategic investment round led by BNY Mellon, Goldman Sachs, BNP Paribas Securities Services and Citigroup, with additional participation from longtime strategic partner Deutsche Börse.

J.P. Morgan has already connected to the HQLA^x platform as triparty agent, and J.P. Morgan will also connect its agency securities lending business next year.

HQLA^x's core clients are financial institutions active in securities lending and collateral management. Its platform enables market participants to transfer ownership of securities across disparate collateral pools at precise moments in time.

This allows participants to optimise their liquidity management and collateral management activities, thereby generating operational efficiency gains and capital cost savings, HQLA^{x} explains.

Guido Stroemer, chairman and CEO of HQLA^{x}, says: “J.P. Morgan’s strategic investment in our company and its commitment to connect to our platform speak volumes towards validating our shared vision to accelerate collateral mobility across the global securities finance ecosystem.”

Ben Challice, head of trading services at J.P. Morgan, adds: “We’re happy to support HQLA^{x} as they continue to grow the collateral management blockchain ecosystem.”

J.P. Morgan declined to disclose the size of the investment.

LCH widens buy-side clearing access on RepoClear

LCH Ltd has expanded the range of firms that can become sponsored members of RepoClear, its cash bond and repo trade clearing facility, to include regulated investment funds.

Insight Investment has become the first investment manager to transact cleared repo on behalf of a UK defined benefit pension scheme following changes to the clearing house’s repo clearing model.

This will make sponsored clearing services available to a wider set of buy-side firms including authorised designated investment companies, unit trusts and common contractual funds (CCFs).

Sponsored members access LCH’s clearing services via a clearing agent which holds full clearing membership, managing margin calls and providing default fund contributions for each sponsored transaction.

LCH’s global head of securities and collateral says: “This expansion of RepoClear’s Sponsored Clearing model is a significant benefit for the UK fixed income market, extending the benefits of clearing to a greater portion of the buy-side. This enables market participants to access repo capacity, maximise pricing and balance sheet efficiencies and ultimately optimise their risk management."

Jos Vermeulen, Insight Investment's head of solution design, says: "Our team has been working closely with LCH to expand this access. We are pleased that investors in our QIAIF range can now take advantage of the same broad market access and liquidity via RepoClear."

CloudMargin collaborates with Ivno

CloudMargin and Ivno have entered into a strategic partnership that leverages Ivno's new distributed ledger technology (DLT) and CloudMargin's existing collateral management capabilities.

The partnership will enable market participants to benefit from minimising transfer costs, settlement failures and cash trapped in transit while optimising liquidity via tokenisation solutions.

CloudMargin says it will deliver significantly improved operational and treasury efficiencies. The proposition combines Ivno's DLT tokenisation and CloudMargin's cloud-based collateral management platform. Market participants will have the ability to tokenise cash, cash equivalent and high-quality liquid assets (HQLA) to use for collateral.

Aaron Grantham, CEO of Ivno, says: "Working in partnership with CloudMargin will enable our shared clients to leverage the benefits of a world-class team and technology by providing a highly innovative solution which delivers tangible value to their business."

CloudMargin and Ivno have successfully completed initial testing on the initiative and validated workflows for secure settlement between the two technology providers.

The partners are now seeking firms aiming to gain benefits from the compression of their settlement cycles to be part of the larger proof-of-concept.


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Securities finance platform attracts new investment

Securities finance technology vendor Tru Technologies has raised $3.1 million in Series-A funding from Korean investors.

In 2020, the South Korea-based firm announced the launch of the first electronic securities lending transaction platform for the Korean market. With the partial lifting of South Korea's short selling ban in May, over $130 million has been traded through this TruWeb lending platform.

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ISLA on track with development of its CDM

The International Securities Lending Association has announced the completion of the latest phase of its Common Domain Model (CDM) project for securities lending transactions.

Working in concert with its members and with its technology partner REGnosys, ISLA has established a 'minimum viable product' for securities lending trades and has contributed this into the CDM.

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Dubai Clear becomes a member of CCP12

Dubai Clear has been admitted as primary member of CCP12, the Global Association of Central Counterparties, at the Association's 2021 annual general meeting.

The CCP was formed in April 2020 as the first CCP to clear local equities in the UAE and the Gulf Cooperation Council (GCC) region.

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MJ Hudson acquires Clarus Risk

Asset management consultant MJ Hudson has purchased Clarus Risk, a specialist in investment risk and risk reporting automation.

Guernsey-registered Clarus Risk is active primarily in the regtech segment and supports investment management firms with aggregate assets under management of close to £10 billion on its platform.

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UK regulator calls for feedback on climate disclosure rules

The Financial Conduct Authority has published new guidelines relating to climate disclosures for UK listed companies.

These build on rules introduced in December 2020, applicable to the most prominent listed commercial companies in the UK, which uphold many of the recommendations of the Taskforce on Climate-related Financial Disclosures.

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Deutsche Börse extends digital asset offering

Deutsche Börse Group has acquired a majority stake in Crypto Finance, a financial group under consolidated FINMA supervision that offers trading, storage, and investment in digital assets to institutional and professional clients.

The acquisition will see Deutsche Börse further extend its offering for digital assets by providing a direct entry point for investments, including post-trade services such as custody.

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Shane Martin
Head of sales for securities financing
Wematch

Adapting to the new world

Bob Currie reports

Shane Martin, head of sales for securities financing at Wematch, speaks to SFT about how the company aims to transform securities finance trading, its international ambitions and the centrality of technology to success in finance

Please say a few words about the formation of the company. What does this bring to the market?

Wematch was created in 2017 by six experienced markets professionals from a variety of backgrounds within the finance industry. As the fintech revolution started to gather pace, the founders, with their years of experience, saw a strong opportunity and created Wematch.live with the purpose of connecting market participants and accelerating digital efficiency.

We were selected to be part of the fintech incubator programmes at our investors' institutions and this gave us a great start as a business. At inception, we saw a gap in the securities finance space, and specifically in the dealer-to-dealer arena, that needed transformation. Through Wematch's technology, we help our clients to find liquidity, negotiate, trade, optimise and manage the lifecycle of their portfolios of assets and trade structures from total return swap (TRS), secured funding and securities lending.

One of our strongest values as a company is to promote collaboration, both within the company and also with our clients. We listen diligently to feedback and, through our agile and nimble technology, we deliver bespoke and tailored solutions. Technology requests that would normally take financial institutions months, if not years, to deliver, Wematch can turn around in a matter of days and weeks. Wematch is not only a platform for market evolution but, as we grow, we are becoming integral to our clients' daily workflow.

Which major factors motivated the formation of the Wematch Securities Financing platform in 2017?

For many years the trading process in some areas of the securities finance industry was conducted through non-digital channels such as voice, email and messaging. The industry was, and still is, very inefficient in the way it conducts transactions.

In 2017, WeMatch's co-founders decided it was time for change. To clarify, though, Wematch is a multi-asset platform. We have an interest rate derivatives platform, a delta one platform, an equity derivatives platform, but it started life in the one area that was screaming out for digitalisation, the total return swap market. Through Wematch's innovative technology, trades that were taking hours and sometimes days to complete could be negotiated, traded, and booked in a matter of minutes.

What were the primary landmarks and defining moments that have shaped your development as a company?

The company's progress since inception has been spectacular, but this has involved hard work and many late nights for the team. However, there is a passion about what we are trying to achieve which is both refreshing and rewarding. I would like to take all of the credit for this success but, given that I only joined in February, it would be remiss of me to do so. So, I will only take 90%!

In all seriousness, David's ambition, and the collective drive of the team, has been the cornerstone. This is still clearly evident and is a major reason for the continued success of the company. But, most importantly, it is also a primary reason why the industry is embracing a young start-up fintech company that is trying to digitalise the securities financing space through improving execution, liquidity and efficient work flow.

We are innovative as a team and our CEO Joseph Seroussi has a dynamic vision of how our industry needs to change. We have a large number of creative ideas, including plans for refinements to sales-to-trader workflow, internal communication workflow and data.

In terms of major landmarks, we launched our securities financing platform in February 2017, followed by our delta 1 equity derivatives platform in October 2018, and then our interest rates derivatives platform in June 2019. We then launched our TRS offer in the US in October 2020. Our ambition is to roll out our cross-asset product offering on a global scale.

Balances on the Wematch platform hit new highs in June, at $93bn, more than a 4-fold increase from $20bn last July. How does this growth rate align with your expectations for 2020-21?

Yes, ongoing balances on the platform are now at all time highs, which is pleasing, but we have a lot more work to do. We are only at the tip of the iceberg. We have over 75 entities now signed up to the platform and close to a thousand traders onboarded across all our asset classes.

> *Technology is the driver of dynamic and successful businesses and I strongly feel that the securities finance industry, and finance in general, needs to retain this focus*

There are two main drivers of this extraordinary growth over the last 12 months. One is the evolution of our own business model from being just a matching platform to now offering a large choice of auxiliary products such as optimisation and lifecycle management. We are soon to release a "client optimiser" module which will allow traders to manage their TRS balances efficiently with buy-side clients, taking into account all bespoke rules, including UCITs, ADVs and so on.

We also went live in the US in Oct 2020, which has driven a significant portion of our growth. Over the past six months we have seen real success in the secured funding space. We have now over 25 structures quoted in our live data daily. This liquidity and unique data set is gathering a huge amount of momentum. Our clients in the delta one space have also become more active and our ability to trade single stock futures, total return futures and dividend futures is attracting a lot of attention, especially from a wider client account base.

Our expectations and aspirations remain extremely bullish for the remaining part of the year and for the future. The securities finance industry is a behemoth, but from a technology perspective it is concentrated within a few players. As we continue to demonstrate our capabilities to our clients and as we look to innovate, I am confident that we will continue to win market share, extend our collaboration with partners and attract new clients.

I anticipate that our balances will grow much further, but we are keeping our feet on the ground. We know we have a large amount to do and we are only starting out. But we will hopefully celebrate milestones in the future.

What is next in your development pipeline?

The pipeline is the most rewarding part of working at a young startup. I wanted to explore the entrepreneurial world and Wematch is delivering on all fronts in terms of offering an exciting range of business developments we wish to explore. I didn't join just so that I don't need to wear suits anymore!

Specifically, we have a wide array of new initiatives such as cash flow management and enhancements to managing data and metadata. We have just launched our new initiative "Securities Lending 2.0". This is a project very close to my heart. After spending 23 years in the equity finance industry at Deutsche Bank and JP Morgan, the securities lending industry has been the backbone of my career. The securities lending business is one of the last bastions of finance that needs to make further progress from a technology perspective.

Wematch listened to what the market was requesting, as we did in the TRS space, and we are delivering a new securities lending platform that brings further digitalisation to the marketplace. It has frustrated me for years that some of the key functions, such as sourcing hard to borrow liquidity, takes traders hours to achieve. With pressure on resources across the industry, and with traders forced to operate within tighter parameters — including the need to make most efficient use of their risk weighted assets (RWA) — the business has become more complex but the technology has failed to evolve at the same pace as the industry.

Hedge funds are the dominant driver of borrower demand and they have become much more sophisticated in their trading protocols over the past few years. However, the securities lending industry hasn't caught up and we are trying dynamically to change that — for example, through faster negotiation protocols, new sources of liquidity and innovative ideas and solutions to help the industry as it faces unprecedented challenges such as the Central Securities Depository Regulation (CSDR).

On the TRS front, we are continuing to deliver new content, sales-to-trader workflows and internal communication flows which allow different parts of the institution that are closely aligned to transact and manage trading activity internally.

We realise there is demand for our technology — and use cases for which this is well suited — but nothing stands still in this industry. Consequently, it is essential to adapt quickly to new requirements. We are working to enhance our product offering to cover market developments in distributed ledger technology. We are also working closely with vendors to explore tokenisation of assets in the repo and securities financing space.

After launching your platform in EMEA, you have invested in building your client book in the US and Asia-Pacific. Please expand on your strategies for these regions and where you identify key opportunities.

You are correct that we have invested heavily in our US offering. It was an heroic effort by the team to launch the US platform successfully in October 2020 in light of the pandemic. The ongoing balances are growing steadily and we are making progress but there are specific intricacies that we are learning through our clients as we develop our offering.

The growth of our platform in the US is a key priority for us as a company. We expect to have a team on the ground team later in 2021, so we keep our fingers crossed that travel will open up soon. But we will continue to push ahead even if this does not happen. Currently, we are live in the US only for synthetic products, but we will expand to other product solutions within the securities finance space, and across other asset classes, imminently.

Our clients have global franchises and Wematch will be no different. We have not slowed down since Covid and we are energised by the challenge this has presented. When we are live on the ground in the US, we will look to the East and bring our fintech knowledge and market leading technology to the financial community in this region. We have already had conversations with firms locally and I have been pleased with the dialogue so far. With Wematch.live, we aim to establish ourselves as the preferred technology partner for our clients' and traders' desks!

What does the next 12 months offer in terms of the direction of securities financing markets? How is Wematch helping clients to thrive in this evolving marketplace?

The Covid-19 pandemic has shown that technology is revolutionising the world. Previously, I was never a believer in the work from home concept. On the contrary, the thought of it used to frustrate me, to the disappointment of many team members and colleagues in the past.

It has been proven over the past 18 months that traders and sales traders can perform well when working remotely and the business can run successfully — and in some instances it can thrive. Technology has enabled this to happen. Technology is the driver of dynamic and successful businesses and I strongly feel that the securities finance industry, and finance in general, needs to retain this focus. Financial firms are now embracing the importance of technology more than ever before. The next 12 months will see a form of hybrid working environment, with an emphasis on work life balance, and therefore fintech needs to help traders to navigate communication, trading and portfolio management more effectively. Regulations across the financial market have had a major impact since 2008 and these regulations force us to have a clear strategy regarding how to manage change.

Following implementation of the Securities Financing Transactions Regulation (SFTR), CSDR is now the main focus of the securities finance industry. We understand that the market is concentrating on the post-trade world, ensuring that standing settlement instructions (SSIs) are accurate and that operations teams become more effective, working more closely with post-trade vendors. At Wematch, we have developed new front office protocols to help our clients manage their exposure and to meet these regulatory requirements. In the TRS space, for example, we have engaged with established partners to build algorithms focusing on ESG (environmental, social and governance) rankings — a hot topic in financial markets currently. Wematch.live will help our clients adapt to the new world we live in, through a targeted process that will allow them to embrace new regulation and to respond promptly to changing market conditions.

Settlement Efficiency: Failure is not an option

Michael Jahn, director of Eurex Securities Transactions Services (Eurex STS), advises on how to prepare for the Settlement Discipline Regime under CSDR and how to engage with the buy-in agent

Eurex is committed to transparent and efficient markets. Consequently, we are glad to observe the additional focus that market participants are placing on settlement efficiency in their efforts to prepare for the Settlement Discipline Regime (SDR). Some markets are even thinking of reducing their settlement cycles, possibly bringing in new perspectives on the topic that had not previously been considered.

A lot has been said already about the root causes of settlement failures. While the results of such analysis might vary from institution to institution, there is evident consensus about the financial impact and undesirable effects of settlement inefficiency going forward. It is therefore essential to detect the breaks in the operational processes from front to back office.

This holds especially true in light of ESMA's finding that settlement fails increased sharply in past months during the Covid-19 crisis. This motivates us to be more efficient in order to reduce the number of settlement fails in the European Union. ESMA's recent risk dashboard confirms heightened risk of settlement failures for equities above pre-pandemic levels. Consequently, the need to address settlement failures should remain high on market participants' and regulators' task lists.

How to increase settlement efficiency?

One thing should be clear to everyone. Settlement efficiency does not begin in the operations department with handling settlements. Rather, it requires a full review of trade processing from front to back office. We have spoken with many clients who are analysing these issues with high priority. They ask questions such as:

- Where do I have breaks in the straight-through processing chain from trade capture to final settlement?
- Is my trading network as efficient as I am? Who causes the most

need for intervention?

- Do the trading desks have access to real-time information on available securities positions and settlement status?
- How efficient is my settlement location network? Do I really need accounts in all markets?
- Do my trading counterparties have access to my latest Standard Settlement Instructions (SSIs)?

Regardless of the answers to these questions, solutions are available. In the past, middle and back offices often suffered from rigorous cost management and consequently applied manual short-term solutions. These error-prone arrangements often turned out to be permanent. The road to settlement efficiency will help to get rid of such long-established inefficiencies.

The positive effects of efficient securities settlement in the long term are becoming more evident as we bring transparency to the costs of inefficiency. Investing in process improvements and automation in middle and back offices will undoubtedly pay off.

The Race for Settlement Efficiency

Over recent months, the conversations we have had with clients confirm that a race for settlement efficiency is on. The winners will not only benefit from low cash penalties and fewer buy-ins, they should also be able to reduce their operations costs dramatically. Qualified staff will be able to work on tasks more valuable than chasing counterparties for matching settlement instructions or reconciling trade confirmations. With lower costs and settlement risks, front-office desks will no longer need to factor in the potential costs of settlement failures. Additional revenue potential will result from efficiency measures, while inefficiency may lead to loss of market share.

The value of the buy-in agent

The race for efficiency will have the positive effects that are intended. However, for certain financial instruments and markets, buy-ins will be required as a last resort. Buy-ins are nothing new in the industry. Yet, in the past very few buy-ins have been executed. Difficulties in selecting a buy-in agent for a specific financial instrument, together with cumbersome operational procedures, were the main obstacles to successful executions.

Moreover, some market participants didn't initiate buy-ins to avoid harming existing trading relationships. An appointed buy-in agent could be any broker which has had a previous business relationship with the client. Such buy-ins have then been executed as regular transactions.

From February 2022, buy-in agents will play a vital role in the settlement process. They will act as neutral intermediaries and ensure that settlement finality is established for all trades within a reasonable timeframe. In addition, steps to reduce settlement fails for retail investor transactions, which have peaked in relation to institutional investors, will strengthen the stability of markets and, as such, are very much in line with policymakers' intentions to strengthen the Capital Markets Union while fostering retail investments.

Eurex has a long history of developing market solutions to address regulatory challenges. As early as 2018, we started consultations with market participants to discuss the solution for mandatory buy-ins to comply with the Settlement Discipline standards. This industry feedback has formed the backbone of our buy-in agent service offering. The service guarantees that the regulatory obligation is fulfilled for market participants and is accompanied by a certificate to be used in regulatory audits.

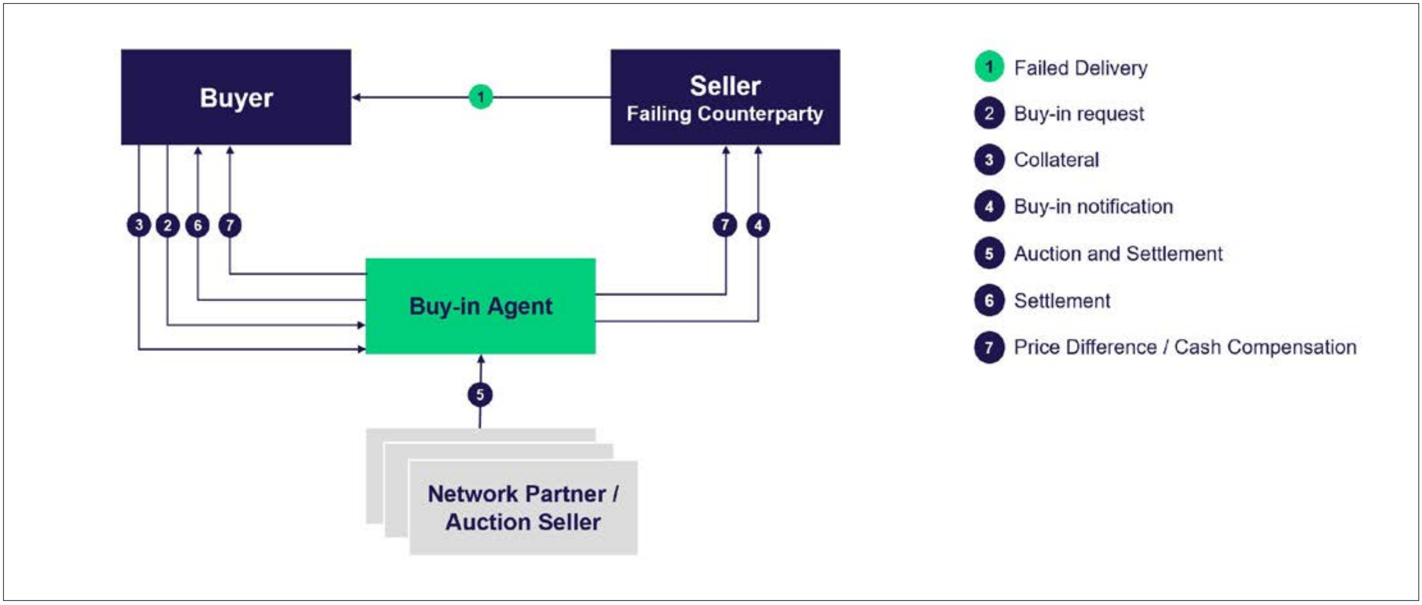
However, we understand industry concerns regarding the effect multiple buy-ins in the same security might have on existing market structures. Thus, we are working on concepts for infrastructural support to reduce the number of buy-ins in so-called "fail chains".

A transparent and standardised process

Registered clients of Eurex Securities Transactions Services (Eurex STS) will be connected to the buy-in agent platform B7. This allows buy-in requests to be submitted at any time in any Central Securities Depository Regulation (CSDR)-relevant financial instrument.

If the measures taken to avoid buy-ins are unsuccessful, the buy-in agent will take over and organise an auction to source the securities. These auctions are held at the same time on each business day, enabling clients to plan accordingly. The buy-in agent notifies the failing counterparty via the B7 platform about the upcoming buy-in and keeps this counterparty informed about the progress and the final result of the buy-in auction. Registered Network Partners may submit their offers and Eurex STS selects the offer with the best price.

With guaranteed same-day delivery by the network partners to Eurex



STS, and onwards to the client, this provides early certainty about the outcome of the buy-in for clients and failing counterparties. This avoids overnight exposures and keeps the cash penalties for the failing counterparty to a minimum.

Our new buy-in agent platform B7 is fully automated and allows flexible settlement between network partners, Eurex STS, and clients. We make use of T2S cross-border settlement and transaction linking to benefit from its available efficiency features as much as possible. Non-T2S eligible instruments can, of course, also be settled via the ICSDs and selected non-T2S domestic CSDs. Clients may also select an innovative option where the purchase amount is offset against the deposited collateral and delivery will consequently be made free-of-payment. This may help to extend the settlement window for same-day delivery and reduce the number of collateral movements.

Efficient auction and settlement are complemented by a highly automated optional price difference and cash compensation process where the client can negotiate the payment details with the failing party on the B7 platform and settle it through Eurex STS. We even have procedures to remove the potentially burdensome process of claiming the costs of the buy-in from the failing party.

Eurex STS has designed automated standardised processes for the benefit of all parties involved. Fair and transparent auction rules, supported by standard settlement instructions and Eurex STS' neutrality as agent, reduce risks and operational complexity.

Connectivity to the buy-in agent system B7 can be directly screen based or through a technical interface. The technical system integration is another key preparatory measure. Eurex STS has also partnered with several technology providers to ease technical access and provide choice to clients.

Participation Options

Sell-side and buy-side firms across the globe should, if they have not yet done so, analyse their trading and settlement activities to identify their current settlement efficiency. According to the CSDR buy-in rules, some settlement fails could lead to mandatory buy-ins after the extension period. Consequently, to comply with the SDR, there is the need to engage a buy-in agent.

As a simple guideline, regardless of your jurisdiction and your own settlement efficiency, if securities trading takes place in your own name in instruments falling under the scope of CSDR and settlement is in an European Union CSD or ICSD, there is a high probability that you need a buy-in agent.

Registration and technical connectivity to B7 are necessary to participate in Eurex STS' buy-in process. Owing to regulatory onboarding requirements and hard deadlines specified in CSDR, it is crucial to approach your buy-in agent sufficiently early.

Multiple participation models are available to all market participants using Eurex STS as buy-in agent. An easy access model allows the submission of buy-ins for own trades and those of affiliated entities. The extended participation models provide greater flexibility and the option to submit buy-in requests for third parties, for instance custody clients. These extended participation models have been specially designed for custodians and transactions banks, but also with a focus on asset managers and prime brokers. Their clients can benefit from easy and fast indirect access to the buy-in agent. We encourage everyone to consider offering such a buy-in service to their client base as a complementary service offering.

Furthermore, international institutions with complex group structures may benefit from the segregated portfolio approach with separate user rights and collateral pools for each sub-entity, while maintaining just one contractual relationship to Eurex STS.

Ready to support the market

Operational process improvements and automation are key to increasing settlement efficiency in Europe. These preparations, and the onboarding with Eurex STS as buy-in agent, should be prioritised simultaneously for timely readiness. Eurex STS offers extensive support to help firms to find the most suitable participation model and to prepare for the new requirements coming into force in February 2022. Additionally, a permanent simulation environment is available to registered clients to provide first-hand experience of processing buy-ins on the B7 platform.

We recommend firms intensify their own efforts to prepare for SDR. That begins with the described measures and questions raised in this article, and continues with a solid data source for SDR. To identify transactions which are relevant for SDR, Eurex STS, together with Deutsche Börse Market Data and Services, have developed data products to manage SDR risks effectively.

With less than eight months to the start of the Settlement Discipline Regime in February 2022, the new rules have already started to have their intended effect on securities settlement operations in Europe and beyond.

Institutions will inevitably soon have to focus on SDR preparations. Experience has shown that legal onboarding, building up connectivity, functionality testing and process integration may require up to six months before readiness. Begin onboarding with Eurex STS now. The buy-in agent is prepared for February 2022. Will you be ready?

"A race for settlement efficiency is on. The winners will not only benefit from low cash penalties and fewer buy-ins, they should also be able to reduce their operations costs dramatically"

Michael Jahn
Director
Eurex Securities Transactions Services

[1] Source: ESMA report on trends, risks and vulnerabilities: esma_50-165-1287_report_on_trends_risks_and_vulnerabilities_no.2_2020.pdf (europa.eu)

Repo the rewards

Alex Pugh reports

Broadridge's new distributed ledger repo platform provides a single location where market participants can agree, execute and settle repo transactions and promises to save users millions of dollars through operational efficiencies, risk reduction, and increased collateral liquidity

Last month, Broadridge announced the successful go-live of its distributed ledger repo (DLR) platform, which promises platform participants reduced risk and operational costs, as well as enhanced liquidity. It seems the proof is in the pudding — in its first week alone, the DLR executed $25 billion in average daily volume.

The DLR allows for the immobilisation of the underlying securities in repo transactions, while transferring ownership via smart contracts executed on the platform, significantly reducing the operating cost and risk of all repo activity, Broadridge said. The DLR was developed using Daml (Digital Asset's modeling language) and deployed on VMware's ledger.

Horacio Barakat, Broadridge's head of digital innovation and head of the firm's DLT repo solution, led the project. Here he explains the platform's benefits, origins and how it compares to similar efforts across the industry.

Collateral digitisation

There are “immense and immediate” benefits of using blockchain for repo transactions including operational efficiencies, risk reduction, and increased collateral liquidity, Barakat told SFT. On the operational side, blockchain can decrease costs due to the digitisation of collateral, and smart contracts mean reduced failed transactions and reconciliation time, Barakat explained, as well as a potential reduction in clearing and settlement costs and lower daylight overdraft costs.

In terms of risk reduction, “we’ve observed reduced operational risk through one secure record of trade details and reduced counterparty risk while improving the management of counterparty risk”. Increased collateral liquidity and potential development of a repo marketplace for illiquid assets also pose significant potential benefits for the broader industry at large, Barakat added.

“The benefits of digitisation are clear,” he says. The platform’s use of smart contracts to transfer ownership without the need to physically exchange, from the collateral to repo agreements in the form of smart contracts, means “our platform can significantly reduce the overall expense structure of the repo market, and improve collateral liquidity by improving collateral mobility”, Barakat noted.

As DLR allows for the immobilisation of the underlying securities in repo transactions, while transferring ownership via smart contracts executed on the platform, “the platform provides the opportunity to achieve significant and immediate savings”, Barakat said.

“In a current market environment that constantly pushes financial institutions to reduce costs and be more efficient, our DLR platform provides the opportunity to achieve significant and immediate savings. Furthermore, it provides a proven path for our clients to accelerate their digital journey and achieve even more efficiencies in the future,” Barakat said.

J.P. Morgan recently revealed it had completed an intraday repo transaction using its custom-built blockchain platform, Onyx, following tests completed with Goldman Sachs and BNY Mellon. Barakat says that Broadridge’s offering is more comprehensive. “Broadridge’s DLR solution allows for the execution of all types of repo transaction, including intraday, overnight, term and open repos, both on a bilateral basis and an intracompany basis,” Barakat said.

Future interoperability

As a market infrastructure and fintech provider to the majority of the fixed income market, servicing 19 of the 24 primary dealers in the US, Broadridge believes it is in a strong position to deliver a distributed ledger repo platform for the industry’s benefit and bring significant benefits to its clients — particularly as an independent platform.

Barakat said that Broadridge’s DLR platform has been the result of “deep collaboration” and co-innovation with its clients for three years, first piloting the platform in 2017 with Natixis and Societe Generale. Since then, it has also been piloted by several broker-dealers and buy-side firms.

In addition to the entities that are operating on the platform today, Broadridge will be onboarding multiple entities over the summer. “Furthermore, we have a very healthy pipeline of market participants that are very keen to start the onboarding process,” Barakat added.

Future interoperability was a primary driver of the way that Broadridge designed the platform and it believes this to be key for broad adoption. “For us, interoperability includes seamless connectivity with existing market infrastructure, and also other ledger or digital platforms,” Barakat said. “The increased mobility of collateral allows for the optimised management of collateral, which results in lower funding costs and better use of capital.”

The potential savings for clients going forward are substantial. Depending on the volume, type of trades and operating model of the platform participants, Broadridge estimates that potential savings for each client could be up to several million dollars a year.

“The DLR platform is the result of deep collaboration and co-innovation with our clients and market participants. This approach allowed us to develop a platform that provides significant and immediate benefits to clients, and has very low barriers for adoption,” Barakat concluded.

All the latest changes at BNY Mellon, Cowen and DTCC, plus more

Tom Daniels departs BNY Mellon

BNY Mellon's head of securities lending business development for the America's, Tom Daniels, has left the bank.

Daniels has been at BNY Mellon since 1998 and has served for the past 14 years as director and senior principal for securities lending for the Americas, directing US and Latin American institutional business development for beneficial owners and asset managers.

In this role, he supported more than 450 clients with assets in advance of $500 billion.

Prior to this, he spent three years as manager for securities lending new business development for the US market, and almost 6 years as senior client services and sales officer based in Pittsburgh.

With BNY Mellon currently restructuring within some business divisions, Daniels is seeking new opportunities outside of the organisation.

Daniels has a BSc and MBA from Duquesne University and is a CFA charterholder.

Gavin Marcus has been promoted at IHS Markit to director, North America, global regulatory reporting sales.

Marcus has been with the business information provider since January 2020, initially working in securities finance sales for the EMEA region before becoming director, regulatory reporting sales in January this year.

In this role, he partnered with firms to assist with their trade and transaction reporting. Both roles were in London but Marcus is now working for the firm in Boston, Massachusetts.

Prior to IHS Markit, Marcus worked at MarketAxess' post-trade business — formerly known as Trax — for almost three years, starting out as a pre-sales consultant in 2017 before moving into a business development and sales role in regulatory reporting in 2019.

Before Trax and IHS Markit, Marcus worked for a hedge fund between 2012 and 2015, where he oversaw the front office trading and portfolio management systems and took care of equities, futures and options, FX and fixed-income trading.

Cowen has added two senior hires to its global capital introduction team, bringing the total number of professionals to eight.

The financial services firm is expanding its prime brokerage and outsourced trading services and coverage, with additional hires planned for the next two years.

Hong Kong's Amy Cheung — the first member of the team from the APAC region — is joining after three years in business development and investor relations at Bright Stream Capital Management, a hedge fund. From 2012 to 2018, Cheung was sales and relationship manager for hedge funds and family offices at Bloomberg. Prior to that, she has held roles in consulting and law.

Daniel McGlinn is joining Cowen's San Francisco office, after spending six years at PNC Asset Management in the alternative strategies team. Both Cheung and McGlinn will join Cowen as vice president.

BNY Mellon's Militello has joined the board of ASIFMA.

Mark Militello is BNY Mellon's Japan country executive and head of markets, clearance and collateral management for Asia Pacific, responsible for executing the firm's Japan strategy, having joined the firm in 2012. He has over three decades of financial services experience, starting his career at Morgan Stanley in New York.

Moving to Japan in 1987, Militello started working at Lehman Brothers before moving on to Shinsei Bank in Tokyo, where he held senior leadership roles including chief operating officer of the institutional bank and co-head of corporate banking.

Militello is also BNY Mellon's executive sponsor of the Asia Pacific diversity and inclusion council.

ASIFMA is an independent, regional trade association of over 140 leading financial institutions from both the buy and sell side, including banks, asset managers, professional services firms and market infrastructure service providers.

DTCC appoints Jennifer Peve

Jennifer Peve has been appointed as head of strategy and business development at the Depository Trust & Clearing Corporation (DTCC), and is set to join the DTCC Management Committee on 2 July.

Peve will have responsibility for the firm's global corporate strategy, digital product development and strategic partnerships and alliances reporting to DTCC president and CEO Michael Bodson.

In her new role, she will maintain strategic alignment across DTCC and ensure coordination and adaptability in the formulation and execution of the firm's strategy.

She will also bring increased focus on leveraging new technologies to enhance the post-trade environment and position DTCC as the bridge between legacy and emerging technologies.

In doing this, Peve will build on initiatives she has previously led such as Project Ion — DTCC's future vision of an alternative digital settlement service — and Project Whitney— DTCC's digital product offering for private securities.

Peve joined DTCC in 2015 as executive director, business development and fintech strategy office.

She was promoted to managing director in 2018 and assumed expanded responsibilities for global partners and innovation. Previously Peve served as executive director, over-the-counter product management, at CME Group.

Bodson comments: "Jennifer Peve is a proven leader who has the unique ability to understand, conceptualize and shape the future of the post-trade environment as well as the application of new and emerging technologies to drive the creation of creative and effective products and solutions for our clients."

Upcoming Securities Finance Training

Non-Cash Collateral Fundamentals

Date: 7 July 2021
Location: Online
Provider: Consolo

This live on-line training course is delivered by an experienced market practitioner and designed for anyone who needs to understand cash collateral and re-investment purpose, process and requirements.

Cash Collateral Fundamentals

Date: 8 July 2021
Location: Online
Provider: Consolo

This live on-line training course is delivered by an experienced market practitioner and designed for anyone who needs to understand cash collateral and re-investment purpose, process and requirements.

SFTR Analysis

Date: 9 July 2021
Location: Online
Provider: Consolo

SFTR is undoubtedly the most significant regulatory change to impact securities lending for over a decade. As the reporting requirement deadline begins to loom, this one day course provides an opportunity to hear how the market is preparing itself and what challenges remain unanswered.

European Regulation Impacting Securities Lending

Date: 16 July 2021
Location: Online
Provider: Consolo

This live on-line training course is designed for anyone who needs to know the background, and application of core European regulations.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