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Big things have small beginnings

Rob Goobie, the Global Peer Financing Association's chair, looks back on the GPFA's successes and where it's headed as the world returns to normal


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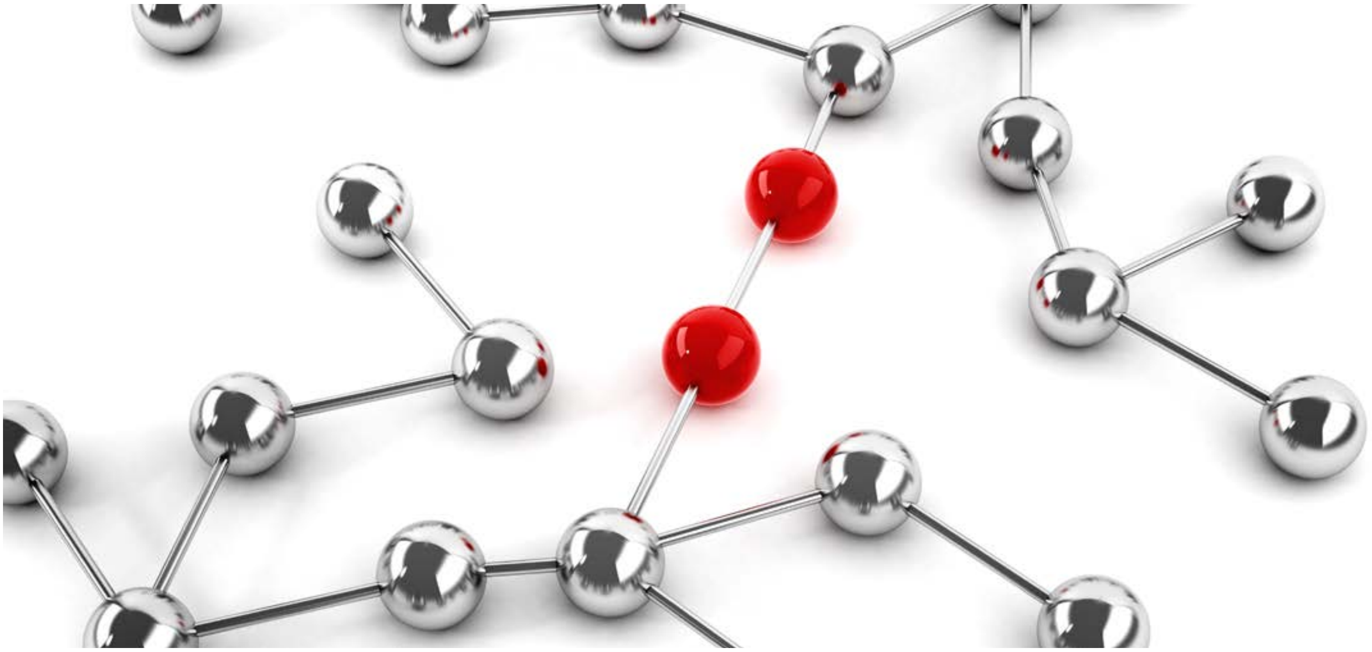


EquiLend takes majority stake in Stonewain Systems

EquiLend, technology provider to the securities lending, collateral and swaps industries, has purchased a majority share in Stonewain Systems.

This deal builds on a partnership between the two companies that has been in place since February 2019, which enables securities finance market participants to manage their books of business on a single, integrated platform.

This brings together Stonewain's Spire technology with EquiLend's portfolio of trading, post-trade and market data solutions for the securities finance industry, including EquiLend's NGT electronic trading platform.

The combination, EquiLend Spire, offers a modular and scalable securities finance solution for compliance, reporting, risk analysis, accounting, positions and trading.

Stonewain will remain as a standalone legal entity with independent management and will continue to support all existing client and partner relationships.

The two companies indicate that their continuing partnership aims to meet unprecedented demand in the securities finance industry for automation, rapid modernisation, service efficiency and reduced cost.

EquiLend chief executive Brian Lamb says: "Our increased commitment to Stonewain is a strategically important development for EquiLend in a year that also represents a significant milestone for the business, as we celebrate our 20th anniversary in the industry.

"We are proud of the opportunities [the partnership] has presented on EquiLend Spire [and] look forward to everything that EquiLend and Stonewain can achieve together as a closer team," adds Lamb.

Armeet Sandhu, Stonewain's CEO, says: "Stonewain has been dedicated to developing cutting-edge solutions in the securities finance marketplace for over a decade, which aligns with EquiLend's ethos of innovation and driving efficiencies for the market. Our partnership with EquiLend has demonstrated that market participants are eager for innovative solutions that tackle their technology challenges and that the combined might of our two organisations can help to alleviate those headaches."

EquiLend's global head of sales and client relationship management Dan Dougherty says: "[the] partnership with Stonewain was driven by two key factors: the opportunity in the market to transform a highly antiquated, underserved corner of securities finance in books and records solutions and the natural synergies between Stonewain's system and EquiLend's suite of trading, post-trade, market data, clearing and regulatory services."

Inside this issue

Capco and AccessFintech partner over data solution

Capco has partnered with AccessFintech to enhance the engineering and delivery of the latter's data management and workflow solution.

The two fintech companies noted the importance of banks, brokers, custodians and buy-side firms ensuring they provide efficient technology platforms in the current competitive regulatory environment.

This can be difficult for some as legacy systems carry fragmented data and time-consuming manual processes, causing increased costs and liquidity risk. Therefore, it is also important for companies to modernise their internal systems and processes.

Capco and AccessFintech's partnership aims to address this through joint engineering solutions to encourage faster workflow adoption and change management.

It will also assist companies to navigate challenges around operations and regulatory compliance, particularly the approaching Central Securities Depositories Regulation (CSDR) regime, Interbank Offered Rate (IBOR) reconciliation, pre-matching and settlements, and cash payment affirmations.

In the partnership, AccessFintech's Synergy Network has capabilities to extend and enrich data, as well as synchronise workflow and enable technology-driven operations transformation for transaction lifecycle management.

Capco's experience in transformation projects will streamline client operations integration with the Synergy Network.

Owen Jelf, partner and global head of capital markets at Capco, says: "By bridging the gap between legacy and modern systems, innovative solutions such as the Synergy Network accelerate those journeys and deliver cost effective and highly controlled rules-based process environments."

Boaz Zilberman, executive vice president of business development at AccessFintech, adds: "We are already successfully processing more than a billion transactions a month. Coupling Capco's industry benchmark technology and operations change management and delivery expertise with our Synergy Network and platform is an important accelerator of our clients' operation and technology transformation."

Firms moving to consolidate regulatory reporting under single platform

A majority of SFTR survey respondents — banks, asset managers, hedge funds and brokers — are planning to consolidate their various regulatory reporting requirements under a single platform in the near future.

Following the go-live of the Securities Financing Transaction Regulation (SFTR) in July 2020, Pirum and IHS Markit's SFTR Post-Implementation Industry Survey recorded over 70 per cent of respondents saying they are aiming to consolidate their various regulatory reporting requirements.

The benefits of outsourcing regulatory reporting to third parties, in terms of speed and convenience of roll out, as well as the upside of a collaborative approach to implementation and interpretation of new rules, were clear, the survey showed.

But for "firms that have already invested heavily in in-house technology to meet regulatory reporting needs, it may be a more difficult decision to abandon these in favour of a third party," the survey says.

Other key considerations for firms were data harmonisation and improving overall data quality, where the survey indicates that "the market as a whole needs to commit in order to find a solution".

It also finds that firms need to work on improving the quality and accuracy of their reporting, particularly on collateral data, to meet regulators' ultimate objectives of increased transparency.

Importantly, the report said that while fines for SFTR non-compliance or inaccuracy have not been handed out to date, regulators still expect firms that are in scope to ensure they are reporting accurately and promptly.

UTI pairing was probably the major challenge going into SFTR, according to respondents. However, a year after SFTR went live, 80 per cent of firms say they have been able to achieve all or most of their pairing. By contrast, the survey says that only 28 per cent of respondents are satisfied with their UTI pairing for EMIR several years after implementation, which the report states is "a testament to the work done by the market".

On a positive note, regulators have learnt lessons from previous regimes such as EMIR and MiFIR, and SFTR appears likely to be the model on which future regulatory reporting requirements are based, the report said.

Eurex launches deliverable cross currency swaps and OTC FX clearing

Central counterparty Eurex Clearing has gone live with its clearing service for deliverable cross currency swaps and OTC FX.

The transactions are cleared and settled on a net basis across cross currency swaps and OTC FX, significantly reducing capital requirements under SA-CCR, the standardised approach for measuring counterparty credit risk.

Eurex Clearing guarantees settlement in CLSClearedFX, which provides liquidity and funding benefits and mitigating settlement risk.

CLS is the leading provider of settlement services for the global foreign exchange market.

German bank Commerzbank joined J.P. Morgan and Morgan Stanley as clearing members to enable the completion of

testing and go-live of the service, following a successful test phase.

For Eurex and its parent company, Deutsche Börse, the launch cements the group's ambition to support a wider move from OTC to central clearing.

Eurex Clearing CEO Erik Müller says: "Central clearing and guaranteed settlement for cross currency swaps in CLSClearedFX is a world first. We are pleased to have launched this together with CLS to deliver capital, liquidity and settlement benefits — providing further resilience to the market."

CLS global head of product Keith Tippell says: "The addition of Eurex Clearing to CLSClearedFX, our settlement service for cleared FX and derivatives, demonstrates the benefits we can deliver to market participants by collaborating with other market infrastructures to further mitigate systemic risk."

OTC FX clearing includes FX Spot, FX Forward and FX Swap matched on 360T, Deutsche Börse's global FX unit. The launch of non-deliverable forwards (NDF) clearing is scheduled for the second half of 2021. Eurex Clearing will then be offering clearing services for both deliverable and non-deliverable FX products. This will provide further capital and operational efficiencies to clearing members, leveraging the same connectivity for both product groups.

Commerzbank divisional head of interest rates, currencies and commodities trading Jochen Litzinger adds: "Eurex Clearing has addressed significant complexity in implementing clearing and guaranteed settlement of these products, providing capital savings and operational efficiencies. It has been an important project on our side to innovate in the FX market, where we received significant support from Sernova Financial to structure our clearing workflows across different central clearing parties in the most efficient way. We are delighted to be part of this service."

J.P. Morgan head of rates, fixed income financing and credit portfolio trading Charles Bristow comments: "Cross currency swaps play an important role in the flow of capital through the international markets. Moving to a centrally cleared model is a significant moment for the asset class as it reduces complexity, enhances efficiency and increases market resilience."

Morgan Stanley COO for macro products Marco Gregotti says: “We support the growth of post-trade services for currency swaps and FX markets and are pleased to be part of the Eurex Offering.”

Q2 financial results: BlackRock, BNY Mellon and State Street

BlackRock generated securities lending revenue of US$140 million in the three months to 30 June, down from $210 million in the second quarter of 2020. This primarily reflects lower spreads and is partially offset by higher average balances of securities on loan.

Quarter-on-quarter, the asset manager’s securities lending revenues rose $13 million from a Q1 2021 figure of $127 million.

BlackRock’s revenue from investment advisory, administration fees and securities lending revenue increased $791 million YoY, primarily driven by the positive impact of market volatility and foreign exchange movements on average AUM and strong organic base fee growth.

Looking quarter-on-quarter, investment advisory, administration fees and securities lending revenue increased $165 million from the first quarter of 2021, driven by overall business growth and the positive impact of market volatility and foreign exchange movements on average AUM — plus the effect of one additional day in the quarter. Revenues were partially offset by higher yield-related fee waivers on certain money market funds.

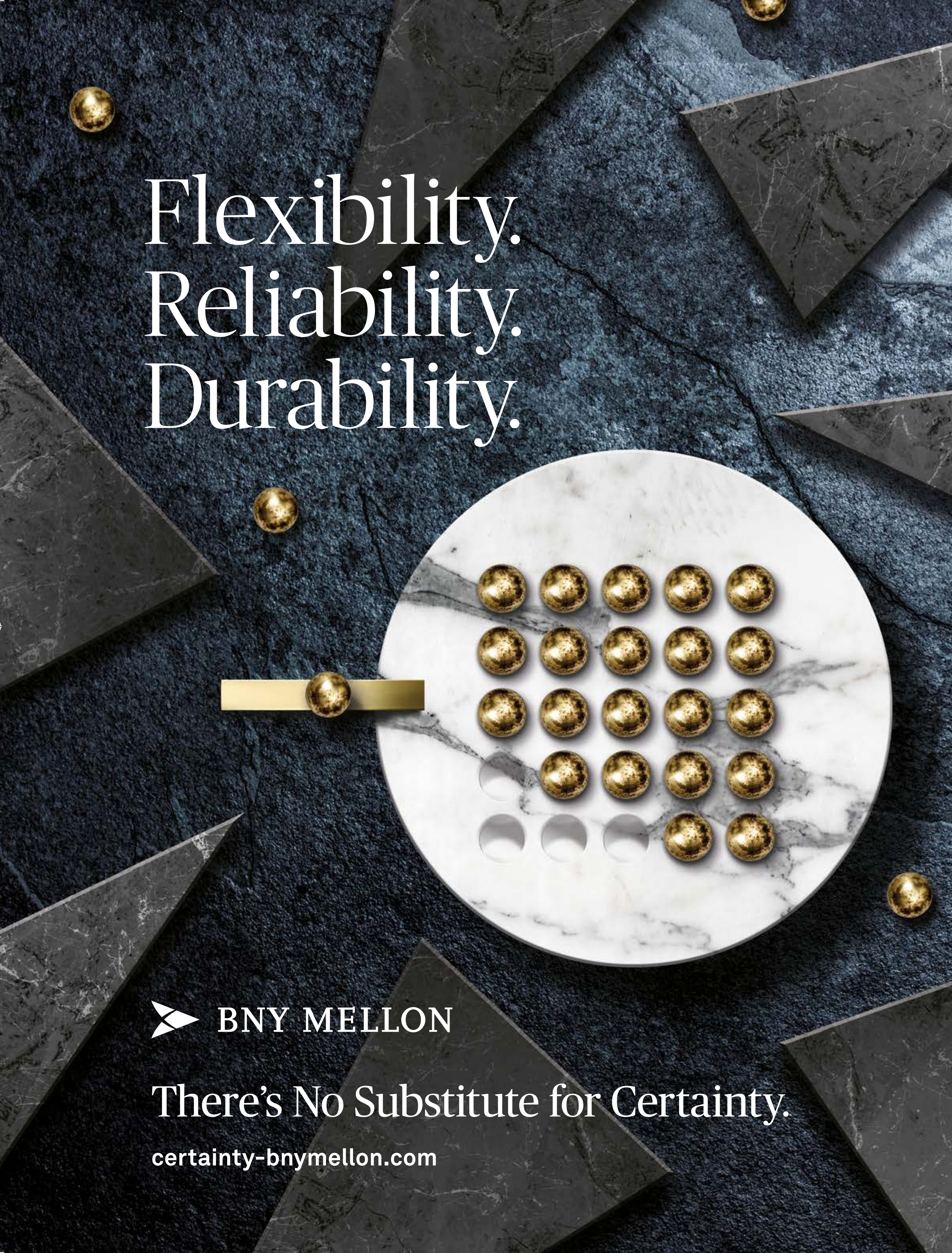
On the whole, the asset manager saw $81 billion of quarterly total net inflows into its investment fund products, driven by continued momentum across its fund platform. This figure takes into account a $58 billion low-fee institutional index outflow from a single client. The fund house experienced $63 billion in net inflows during Q2 into its actively managed products.

BlackRock said that a 32 per cent increase in its revenue year-over-year reflects strong organic growth, higher performance fees and a 14 per cent increase in technology services revenue.

BlackRock chairman and CEO Laurence Fink says: “Our longstanding approach to invest for the future positions our platform to better serve clients and generate more consistent organic growth. In sustainability, we are investing in products, data and analytics and technology to help investors capture the opportunity and manage the risks presented by sustainable factors. This is resonating with our clients and we generated $35 billion of sustainable net inflows in the quarter.”

State Street’s securities finance revenue increased 10 per cent quarter-on-quarter to $109 million and was up 18 per cent YoY, primarily driven by higher client balances and partially offset by lower spreads. These figures reflect the firm’s wider business — net income was up 10 per cent YoY from $694m to $763m and sequentially [QoQ], revenue was up 47 per cent, from $519m to $763m.

State Street chairman and CEO Ron O’Hanley says: “Our second quarter results reflect the successful execution of our strategic priorities. We delivered record fee revenue with continued expense discipline, driving considerable pre-tax margin expansion and earnings growth in the second quarter, thus demonstrating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meaningful progress toward our medium-term targets."

For BNY Mellon, the bank's market value of securities on loan at period end, which represents the total amount of securities on loan in the agency securities lending programme managed by the Investment Services business, was up 19 per cent YoY to $456bn — and up 2 per cent compared to the previous quarter to $456bn.

BNY Mellon's clearance and collateral management business, as part of its investment services business, saw a year-over-year decrease — from $295m to $283m — which primarily reflects lower net interest revenue, intraday credit fees and clearance volumes, but is partially offset by higher tri-party collateral management balances. The sequential increase — $281m to $283m — largely reflects higher tri-party collateral management balances, although this is partially offset by lower clearance volumes.

BNY Mellon CEO Todd Gibbons says: "Fee revenue was up 4 per cent, or 10 per cent excluding the impact of money market fee waivers, reflecting the benefit of higher market levels as well as continued organic growth, driven by higher client activity levels and net new business momentum."

Global PSSL issues securities finance value chain transparency recommendations

The Global Principles for Sustainable Securities Lending (Global PSSL) group has issued recommendations designed to boost transparency in the securities lending value chain.

Global PSSL's seven draft recommendations, published yesterday and open for consultation until the end of August 2021, detail the roles stakeholders can play in the sustainable securities lending value chain.

Designed to increase transparency in the securities lending market and provide a means for continuous review and evaluation through voluntary collaboration, the recommendations propose a monitoring role for regulators and central banks as well as international organisations.

They also provide a role for Global PSSL as a guardian of the public interest for sustainable securities lending with each recommendation, according to Global PSSL, designed to be "forward-looking, unifying and inclusive, transparent, dynamic, and aligned with Global PSSL policy themes."

The recommendations were drafted by Roelof van der Struk of Dutch pension fund PGGM and Global PSSL CEO Radek Stech and form part of a broader review with Global PSSL contributors and regulators in Africa, Australia, the UK and the US.

Van der Struik and Stech released a joint statement on the recommendations: "Sustainable securities lending can add value to the owners of capital and the broader sustainable finance agenda.

"Fragmented and self-serving securities lending may only add value to certain best-informed and sophisticated stakeholders, and, in turn, impede progress towards a wider community supporting financial markets. Global PSSL works towards the former whilst engaging the latter."

They add: "These recommendations are the fruit of dedicated long term work on the widespread adoption of sustainable working practices. This alignment and cooperation hold tangible value for all parties along the securities lending value chain."

Global PSSL is a not-for-profit social enterprise that provides a hub for all key stakeholders to advance sustainable securities lending, and the broader global sustainable finance market, through market leadership, research and education, international collaboration, and tangible impact.

FCA publishes final rules to reinforce investor protection in SPACs

On 30 April, the FCA consulted on proposals to remove the presumption of suspension for SPACs that meet certain criteria.

The proposed changes were designed to provide an alternative approach for SPACs that must provide detailed information about a proposed target to the market to avoid being suspended.

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EBA launches consultation for identifying shadow banking entities

The public consultation on draft regulatory technical standards (RTS) details the criteria for identifying shadow banking entities.

Entities that offer banking services and perform banking activities as defined in the RTS, but are not regulated and are not being supervised in accordance with the regulated framework, are identified as shadow banking entities.

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US Federal Reserve establishes two new standing repo facilities

The US Federal Reserve's open market committee has established two standing repo facilities to support the effective implementation of monetary policy and smooth market functioning.

These facilities — a domestic standing repo facility (SRF) and a repo facility for foreign and international monetary authorities (FIMA) — will serve as backstops in money markets.

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SIX expands its international custody services reach to US

René Haag, former SIX senior relationship manager, will lead the new SIX SIS US office; she has an international wealth management background in both Europe and the US.

SIX delivers securities services to banks, private banks, wealth managers, broker-dealers and other clients across the global financial sector.

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Wematch reaches $100bn in ongoing notional balance

The multi-asset web-based platform was created in 2017 and has since had consistent growth in its ongoing notional balances.

Shane Martin, head of sales for securities financing at Wematch, spoke to SFT earlier this month, revealing a $93 billion high in June, more than a 4-fold increase from $20 billion in July 2020.

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Citi launches real-time liquidity sharing in Asian markets

Citi's new real-time liquidity sharing solution is responding to companies' need to improve the efficiency of their liquidity management and working capital.

Citi says the solution enables treasury divisions to mobilise liquidity and fund intraday payments across multiple entities and accounts in real-time without the need to physically fund these accounts.

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Big things have small beginnings

Alex Pugh reports

Beneficial owner-run, peer-to-peer securities lending network GPFA has weathered the pandemic and come out the other side to celebrate its one-year anniversary. Rob Goobie, GPFA chair and AVP, collateral management, Healthcare of Ontario Pension Plan (HOOPP) looks back on the Association's successes and where it's headed as the world returns to normal

The benefits of sticking together and picking the brains of those in different but adjacent silos are clear. And thanks to telecommunications technologies, it's never been easier to connect with and learn from peers who face similar challenges and opportunities.

The GPFA, the Global Peer Financing Association, a club composed of global beneficial owners engaged in the securities finance industry, is taking stock after its first year in action. The Association's aim is to boost peer-to-peer securities finance trading through a dynamic and transparent marketplace, liquidity management and collateral management.

From humble beginnings with four founding members — California Public Employees' Retirement System (CalPERS), Healthcare of Ontario Pension Plan (HOOPP), State of Wisconsin Investment Board (SWIB) and Ohio Public Employee Retirement System (OPERS), and with assets of just under $1tn — the Association has now grown to almost 20 members, with assets approaching $7tn.

The GPFA, which recently welcomed US-based insurance company Pacific Life as its newest member, has members based in North America, Europe, Asia, and Australia and beneficial owners across the globe are lining up to join.

Last year, the GPFA welcomed three new members, including its first Australian pension fund. The California State Teachers' Retirement System, Australian Super — Australia's largest superannuation and pension fund — and Thrivent Financial, a Fortune 500 not-for-profit organisation, were the first new members since the group formed in July 2020.

AustralianSuper associate portfolio manager, FICC, Michael Fitzsimmons said GPFA membership has afforded Australia's largest superannuation and pension fund an invaluable opportunity to regularly engage with large, sophisticated global peers. "Given our geographic location, this is challenging at the best of times, and impossible in the light of current travel restrictions," Fitzsimmons said.

According to Fitzsimmons, the GPFA has facilitated "detailed and collaborative forums" covering topics relevant to asset owners, such as the design and best practices of securities financing programmes, management of globally implemented regulations like UMR and LIBOR and peer-to-peer financing capabilities.

Critical Mass

In a letter commemorating the one-year anniversary of the Association, GPFA chair Robert Goobie says he is "encouraged" by members who have expressed enthusiasm for the platform and its opportunities for "learning and growth".

"The importance of this has never been greater, especially amongst beneficial owners who are relatively new to financing and liquidity management," Goobie said. With interest rates expected to stay low for the foreseeable future, "it is all the more critical that we help organisations grow their financing business and bring these functions to the heart of their portfolio construction process".

Outside of the beneficial owner community, GPFA says it has filled an "important need" for many market participants such as agent lenders and other industry associations, with benefits of membership seen across the sector.

Through regular sub-group meetings, the Association has provided a forum for the exchange of information, ideas and best practices on a diverse range of topics, including technology, collateral, trading and other buy-side issues, with input from over 60 individuals pitching in remotely across the world.

Goobie told SFT that GPFA "aims to be the global voice and forum for beneficial owners engaged in securities finance", and that while peer-to-peer trading and education is a core reason GPFA was founded, "our members are quickly realising the broader application of having a group of like-minded asset owners to discuss many other topics related to both securities finance and other investment disciplines".

Bright future

Looking ahead, GPFA anticipates an increasing focus on education, discussions and development of best practices and industry advocacy for issues important to beneficial owners. "Our approach is to use existing market infrastructure while taking a lead in shaping our environment and industry," said a GPFA spokesperson.

Another priority is to deepen the relationships among the membership. Growth is not just about increasing the number of members, notes the Association, it is also about becoming increasingly useful to those members.

"We are focused on formalising how we operate and are developing policies and procedures to support the Association's work with members." Being a new organisation run by volunteers with day jobs, Goobie said, "we are also working to find ways to manage the administrative portion of GPFA so that our communications and structure continue to meet the needs of our expanding membership".

The focus in expanding the organisation will be to extend membership among engaged buy-side market participants, while remaining committed to why the Association was formed: to deliver value to its beneficial owner membership.

Even more important, it says, are the steps to foster organic communication and sharing of best practice across its members — discussions are member-led and engage with real-time challenges and opportunities confronting its member organisations.

Regarding the pandemic, Goobie said the GPFA was "delighted to find ways to connect with new members virtually" and to establish a strong rapport with one another. Just how "fluidly the group has grown and connected with one another — especially across all major time zones" was impressive, he commented. Nonetheless, the Association is looking forward to gathering in person at its annual member meeting in 2022.

A year into SFTR: the devil remains in the detail

As we reach the first anniversary of implementation of the Securities Financing Transactions Regulation (SFTR) for the first cohort of firms, it seems an appropriate time to ask ourselves what we have learnt. Jonathan Lee, senior regulatory reporting expert at Kaizen Reporting, shares his assessment

In spite of the pandemic, and some would say against the odds, the industry delivered and should be given credit for doing so in such difficult circumstances. This can be seen in the trade repository acceptance rates, which have been far higher than many expected. However, before we get too carried away, we must remember that producing valid SFTR reports is the easy part.

Data proves to be 'valid but wrong'

One of the biggest issues highlighted during the first year is that the majority of reported activities, while passing validation, are in fact inaccurate. This is what at Kaizen we call the 'valid but wrong' problem. A staggering 93 per cent of SFTR reports tested by Kaizen for the first time exhibit errors and questionable population, typically reported with valid (they pass trade repository validation rules) but wrong data.

Data in the public domain is low grade but informative

The public data published weekly by the trade repositories appears to indicate under-reporting and double counting. In spite of aspirations, this data also holds very little value to the industry in terms of making markets less opaque or countering asymmetries of market data. Under-reporting, especially of collateral, is a problem and one likely to come under greater regulatory scrutiny.

To report completely and accurately, reporting counterparties need the specific details.

We also identify a lack of clarity in areas such as bilateral margin reporting, collateral re-use and cash reinvestment reporting — and the reporting of commodity financing transactions has led to an apparent lack of reports covering these areas. In spite of repeated industry presentations prior to go-live about the significance of bilateral margining for repo, this has proven something of an afterthought in the reporting taxonomy.

Trade Repository reconciliations are far from perfect

The principal mechanism regulators put in place for promoting data quality under SFTR is the trade repository reconciliation. The overarching concept is that if both firms submit reports directly from their books and records, then trades and post-trade lifecycle events should ultimately match. If both sides agree, this should provide assurance that the data is correct. However, this has proved to be rather a naive premise for two key reasons.

First, the vast majority of SFTR reports are single-sided and not subject to reconciliation. According to DTCC, the Depository Trust and Clearing Corporation, these figures currently stand at 76 per cent in the EU and 86 per cent in the UK. In a recent Kaizen webinar, only 32 per cent of participants polled appreciated the ineffectiveness of the trade repository reconciliations (selecting the level of TR reconciliation at 0-25 per cent).

Second, SFTR was so ambitious in its data reporting requirements that a large proportion of reporting counterparties did not, and still do not, have enough reference data or static data to complete a report. Therefore, much of the data is sourced from third parties, not the reporting firm's books and records, and is of mediocre to poor quality. This data is far below the standard required to ensure systemic risks are controlled and that market manipulation is detectable.

So, despite a start that should be applauded, there is still work to do. As we head into the second year, firms should focus on the completeness and accuracy of their own reporting. But these efforts should not be at the expense of resources devoted to addressing the challenges of trade repository reconciliation.

Regular, periodic, full universe quality assurance through regulatory testing will provide a significant advantage in meeting the SFTR compliance challenge.

Jonathan Lee
Senior regulatory reporting expert
Kaizen Reporting

Quarterly securities finance revenues hit three-year high

Q2 revenues grew by 13 per cent YoY to US$2.85 billion, with lending revenues from exchange-traded products having their best quarter on record. IHS Markit's Sam Pierson dissects the numbers

Global securities finance revenues totalled US$2.85 billion in Q2 21, a 13 per cent YoY increase. This revenue growth made Q2 the best quarter for securities finance revenue generation since Q2 2018.

Following a boom-and-bust first quarter for equity specials, special balances increased steadily during Q2, driven by US equities and emerging markets in APAC. Borrower demand for ETFs continues to boost returns, particularly for credit and emerging market products.

Equities

Global equities delivered US$2.3 billion in revenue during Q2 21, a 16 per cent YoY increase. The second quarter built from a slow start in April, the weakest month so far this year for revenue generation, before returns rebounded strongly during May and June. Q2 was the third consecutive quarter to deliver QoQ revenue growth, starting from the 2020 low-point observed in Q3.

In 2020 a summer slow-down in markets activity, particularly in August, caused equity finance revenues to drop off sharply. Whether 2021 repeats the summer slowdown of 2020 remains to be seen. However, some of the Q2 revenue drivers are likely to persist into Q3.

APAC equity revenues have grown by 25 per cent YoY to US$472m, with each month during Q2 delivering a YoY revenue increase of at least 19 per cent. The upswing has been driven by the resumption of short selling in South Korea, along with increasing borrower demand in Taiwan and Hong Kong SAR.

Revenue growth in the region is partly the result of a light YoY comparison, with short sale bans and lower balances coming in the wake of the Covid-19 crash; revenues for Q2 fell 1.4 per cent short of the Q2 2019 return. Hong Kong SAR's equity finance revenues exceeded those of Japan, as the primary equity market in the region in terms of quarterly revenue generation, for the first time since Q4 2015.

America's equity finance revenue in Q2, at just over US$1 billion, reflected a 3.5 per cent YoY increase and a 5 per cent sequential (ie

Global securities finance snapshot - q2 2021

Asset Class	Q2 Revenue ($B)	Rev YoY %Chg	Avg Balances ($B)	Bal YoY %Chg	Avg Fee	Fee YoY %Chg	Avg Utilization	Util YoY %Chg
All Securities	$2.85	13%	$2,738	33%	0.4%	-15%	6.7%	-10%
All Equity	$2.32	16%	$1,222	29%	0.7%	-10%	3.6%	-23%
Americas Equity	$1.07	3%	$610	39%	0.7%	-26%	2.8%	-22%
Asia Equity	$0.47	25%	$201	0%	0.9%	25%	3.9%	-34%
EMEA Equity	$0.49	17%	$260	20%	0.7%	-3%	5.2%	-26%
ADR	$0.09	96%	$52	150%	0.7%	-21%	9.4%	46%
ETP	$0.17	63%	$92	41%	0.7%	16%	12.6%	-1%
Government Bond	$0.40	-1%	$1,265	35%	0.1%	-27%	28.1%	14%
Corporate Bond	$0.12	15%	$229	37%	0.2%	-15%	4.4%	14%

Note: Includes only transactions with positive fees

QoQ) increase. June was the most successful month during Q2 for revenue generation, but the only month to see a YoY decline in returns as a result of particularly strong returns 12 months previously. The uptrend in revenue growth within the quarter was driven both by increasing total on-loan balances and an increasing portion of balances with high-fees. US equity finance revenue of US$979 million in Q2 reflects a 7.6 per cent YoY increase. In contrast, Canada's equity revenues declined by 29 per cent YoY to US$84 million.

EMEA Q2 equity finance revenues of $494 million reflect a 17 per cent YoY increase, with June the only month during Q2 to record a YoY revenue decline. This YoY increase was driven particularly by the reinstatement of dividends, which had been suspended or reduced in 2020. However, EMEA Q2 revenues were down by 30 per cent compared with Q2 2019. The French equity market delivered the most revenue among EMEA markets in Q2, overtaking the German market (which led Q1).

Equity on-loan balances with positive spreads averaged US$1.2 trillion in Q2, a 29 per cent increase YoY, largely driven by recovering equity market valuations over the last year. Despite loan balance growth, global equity utilisation has resumed a multi-year downtrend, which took a brief pause amid the Covid-related sell-off in 2020. The Q2 average global equity utilisation of 3.6 per cent is the lowest for any quarter on record.

Global equity special balances rebounded in Q2, following a year-to-date low point observed in March. APAC equity special balances recorded the most notable uptick in Q2, owing to the reinstatement of short selling in South Korea and a general upturn in demand for hard-to-borrow shares in Hong Kong SAR, Taiwan and Malaysia.

Average APAC equity special balances averaged $11.4 billion in Q2, compared with $8.7 billion in Q1 and $7.8 billion in Q2 2020.

For the Americas, equity special balances declined by 3 per cent compared with Q1 but the shortfall was entirely the result of the January short squeeze in hard-to-borrow shares. EMEA equity special balances declined by 42 per cent YoY, with the shortfall primarily the result of German equity special balances being consistently high in 2020. Specials balances for ADRs surged in late-2020 and early-2021 on the back of outsized borrower demand for Futu Holdings. Subsequently, ADR special balances declined in Q2 following the wrap-up of the Futu trade, though overall borrower demand for depository receipts remains strong.

Exchange Traded Products

Global exchange-traded product (ETP) revenues totalled US$171 million for Q2, a 63 per cent YoY increase. Loan balances set a new quarterly average high of $92 billion, reflecting increased use of these products for hedging. Lendable asset values also set a new all-time quarterly average high of $444 billion.

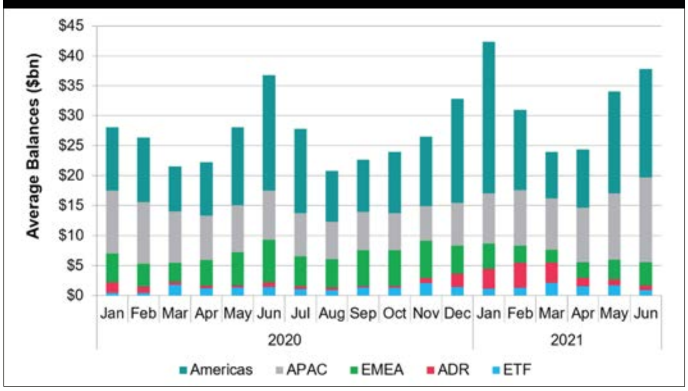
Fixed income products generated 39 per cent of Q2 revenues, up from 27 per cent in Q1. US listed products generated 80 per cent of Q2 revenues, up from 74 per cent in Q1. APAC ETP revenues declined by 32 per cent YoY for Q2, but that was partly the result of strong results in 2020 — revenues only contracted slightly QoQ compared with Q1. EMEA ETP revenues increased 3 per cent YoY.

Fixed Income

Fee-spread revenues for global sovereign debt totalled US$398 million for Q2, a 1 per cent YoY decline. Borrower demand for government

Equity finance revenue by region

Global special balances by region



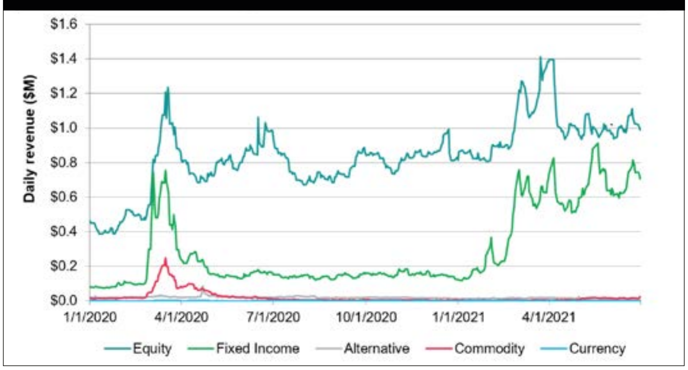
bonds remains robust, with $1.26 trillion in positive-fee global balances for Q2 reflecting an 35 per cent YoY increase. The $330 billion increase in positive-fee balances is the result of a $247 billion YoY increase in total on-loan balances. along with $82 billion moving from negative to positive fees.

Total Q2 government bond lending revenues for agency programmes, which amounted to $408 million including reinvestment returns and negative fee trades, declined by 18 per cent YoY. Reinvestment revenue declined by 47 per cent YoY, while fee spread revenues increased by 25 per cent YoY. Following the decline in interest rates during the latter half of Q2, a marginal decline in government debt on-loan balances may be the start of an unwind of trades predicated on rate path and yield curve. However, balances remain relatively high in historical terms.

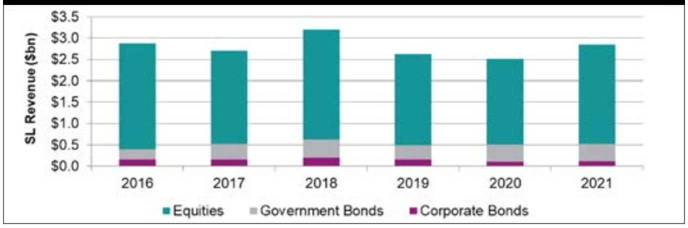
For corporate bonds, fee spread revenues totaled $121 million for Q2, a 15 per cent YoY increase. Corporate bond borrower demand continues to increase — $229 billion of daily average balances in Q2 represented a 37 per cent YoY increase and the highest quarterly average since Q3 2008. Total Q2 corporate bond lending revenues for agency programmes, at $115 million including reinvestment returns and negative fee trades, declined by 29 per cent YoY.

During Q2, reinvestment revenue declined by 59 per cent YoY while fee spread revenues increased by 19 per cent YoY. While corporate bond loan balances are historically high, there has been a lack of hard-to-borrow issues. To the extent that credit stress increases in the second half of the year, the asset class could get back to delivering stellar lending returns — as they did in 2018, the strongest year for corporate bond lending since 2008 in revenue terms.

Daily ETP finance revemues by asset class



Q2 global securities finance revenue history



Conclusion

Global financing revenues for Q2 were in the middle of the range observed over the preceding five years. However, it was the strongest second quarter for equity finance revenues since 2018. The upswing in equity revenues was driven by the pick up in APAC specials, dividend reinstatement in EMEA and IPO/SPAC-related demand in the US.

Taken together, the drivers for equity borrowing demand that were anticipated coming into 2021 are largely playing out and delivering returns. Heading into the second half of the year, APAC specials, ETP demand and US SPACs and IPOs appear likely to continue to boost returns.

For fixed income, the big picture is drawn from greater loan balances and narrower spreads. Revenue from rates-related trades may decline, though there is potential for credit risk to drive borrowing demand for corporates, which could result in hard-to-borrow credits becoming a H2 return driver.

H1 revenues of $5.5 billion reflect a 14.3 per cent YoY increase in fee-based revenues.

Sam Pierson
Director
IHS Markit

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MarketAxess, MUFG, LCH and JonesTrading latest hires

CIBC's Will Cutts has been promoted to director of global markets, delta one and synthetic prime, based in London.

For over two years prior to this, Cutts was based in New York where he set up a multi-asset global synthetic prime brokerage and delta one trading product for CIBC. In this role, Cutts was responsible for the technology selection, implementation and connectivity to all of the bank's downstream sub-systems, support functions and risk management processes.

Additionally, in this role Cutts was responsible for the deployment of new products to London, New York and Toronto, as well as adding new institutional clients and generating new revenue streams to benefit the firm's prime finance, equity derivatives and wider global equities business.

Prior to CIBC, Cutts spent two-and-a-half years at Capital Markets Consulting as a consultant for the Americas, Asia Pacific and Europe. At Capital Markets, Cutts worked on assignments in the delta one, derivatives, prime finance and corporate treasury business, including the prime finance platform and STP for securities finance products.

Starting in 2012, Cutts spent five years at BNP Paribas in New York as a senior prime finance sales and trader of equity derivatives and securities financing products to institutional investors for the Americas, Asia and Europe, Middle-East and Africa (EMEA).

In the 1990s, Cutts spent seven-and-a-half years working for Salomon Brothers, where he was initially a securities lending and repo trader, before running the synthetic equity

Rob Sackett joins JonesTrading

Sackett stepped down from his position as Wells Fargo's head of securities lending in June. He held this role for six years, developing the company's prime services activities before joining JonesTrading on 19 July 2021.

Sackett has more than 25 years of experience in prime brokerage and equities financing including 16 years at Citi, where he was head of specials trading for US equity finance, managing trading for prime brokerage clients and the bank's proprietary business.

JonesTrading is an equity trading firm in the US, with offices also in London and Toronto, creating liquidity and trading blocks for institutional accounts.

finance business for Europe, Middle-East and Africa, as well as some Asia-Pacific markets.

SMBC Nikko Securities has hired William Liang as equity finance trader for its headquarters in Tokyo.

Liang will report to Makoto Yamada, the global head of equity trading, and functionally to Toshimitsu Shimazaki, the local head of equity finance.

It is a hybrid role which includes both securities lending trading and synthetic swap book building.

With more than 10 years of experience as a finance trader, Liang worked at Citi from 2014 to 2021 as prime finance trader.

Before joining Citi, Liang spent three years at Mizuho Securities and two years at Credit Suisse.

MUFG Investor Services adds Jim Aris, former Deutsche Bank employee, to the team as an executive director.

Aris will head equity trading for agency lending solutions at the MUFG's London office and becomes one of a number of ex-Deutsche Bank hires to make the move to the Japanese bank.

Tim Smollen has attracted several of his former Deutsche Bank employees to MUFG since his transition to the company's New York office in December 2019, where he aims to build out MUFG's securities finance business.

Most recent hires include Christopher Morley, head of the global securities lending solutions group (GSLS) in MUFG's Luxembourg office, and Thomas Ryan, senior vice president who heads the GSLS business in New York.

In a career spanning 30 years, Aris spent 19 of these at Deutsche Bank, working his way from a securities lending trader at its Hong Kong office, to director, heading the Bank's EMEA & APAC agency securities lending business in London.

Aris previously worked for five years at Dresdner Kleinwort, where he led the equity trading book for agency securities lending, and for four months at State Street as an agency securities lending trader.

LCH has appointed Rohit Verma as head of its Asia Pacific business.

Based in Singapore, Verma will lead the clearing house's sales and business development activities in the Asia Pacific region, including its operations in Singapore, Sydney and Tokyo, and will be part of the company's sales leadership team.

He assumes the role following Kate Birchall's relocation to London earlier in 2021 to become LCH head of sales.

Verma moves to LCH from Citi, where he held senior positions in the futures, OTC clearing and FX prime brokerage areas, most recently as APAC head of OTC clearing and FX prime brokerage.

Before this, he worked in risk management at Deutsche Bank, Landesbank-Baden Wurttemberg and Credit Suisse. He started his career close to 20 years ago with Siemens in India.

Verma will report to LCH Ltd CEO Isabelle Girolami and will take over the role from 26 July 2021.

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