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ARCHEGOS: WHAT WENT WRONG, THROUGH A PRIME BROKER'S EYES

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One year after go live

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FCA writes new rules


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Trade associations sign CDM agreement

Three industry associations, the International Capital Markets Association (ICMA), the International Swaps and Derivatives Association (ISDA) and the International Securities Lending Association (ISLA) have signed a memorandum of understanding (MoU) to guide their collaborative work in developing the Common Domain Model (CDM).

The CDM provides a common data representation of transaction events, offering a common template or set of fields that the industry will use to share trade information and other key data. This is a standardised, machine-readable blueprint for how financial products can be managed across the trade lifecycle.

The MoU lays down a framework for collaboration between the industry associations, defining a model for joint governance, the use and development of open-source elements of the CDM, and related intellectual property considerations.

For close to three years, ISDA has been active in the OTC derivatives market in promoting a common digital representation of the steps, or ‘lifecycle events’, associated with a derivatives transaction. Subsequently, ISLA has been working with ISDA and ICMA to apply a CDM to securities lending.

With this objective, it completed a pilot with REGnosys, its technology vendor for the CDM project, in November 2020 and launched its minimum viable product CDM at the start of July 2021.

On 5 July, ICMA confirmed that it is working with REGnosys, ISLA and their respective association members to extend the CDM for repo transactions and outright bonds.

ISDA is stepping up the pace of adoption by integrating CDM into regulatory reporting for new rules required by the Commodity Futures Trading Commission (CFTC) and the European Securities and Markets Association (ESMA). The Association indicates that market participants are coding reporting rules into machine-readable models for these regimes in the CDM. For the CFTC regulatory reporting, this is likely to be production ready as early as 2022.

ISDA is also working with the market to bring greater standardisation and efficiency to collateral processing and legal documentation handling, establishing representations of credit support annexes (CSAs) and other documentation in CDM format for application on collateral infrastructure platforms.

Continued on page 6

Inside this issue

Trade associations sign CDM agreement

Continued from page 3

Building on the foundations established by ISDA, ISLA's CDM Working Group has introduced enhancements to allocation procedures, to the transfer function required for physical settlements, as well as introducing the ability to associate more than one legal agreement with a trade. ISLA says it has also established the first concept of a bill within the CDM.

ICMA chief executive Martin Scheck said: "The CDM contributes directly to digitising common standards and best practice, practically assisting our members in their journey towards digitisation. It has the potential not only to facilitate interoperability and cross-industry efficiencies, but to facilitate regulatory reporting and create the foundation for innovation in years to come."

Andrew Dyson, ISLA's CEO said: "The completion of this MoU marks an important milestone on the journey to deliver digital standards to our collective members and other stakeholders including the regulatory community. The basis of this collaboration will now allow us to set an ambitious forward-looking agenda over the coming months that will deliver real benefits to our joint communities."

ISDA chief executive Scott O'Malia said: "ISDA is committed to building out the CDM to promote a consistent and scalable taxonomy to develop a more automated and cost-effective financial services infrastructure. We will work to align our product definitions, digital legal agreements and operations with CDM and we are excited to be working closely with ICMA and ISLA to develop this digital infrastructure."

Global securities finance revenues up 8% YoY

The global securities finance industry generated $756 million in revenue for lenders in July 2021 — a 12 per cent decrease from the $859 million generated in June 2021.

But there was an 8 per cent increase YoY from the $702 million generated in July 2020, according to EquiLend's market data division, DataLend.

Broker-dealers lending and borrowing securities from each other boosted the total global securities finance revenue by $196 million in July.

DataLend says the increase in lender-to-broker revenue over 2020 was driven primarily by Asian equities — up 46 per cent — where the average fee increased from 80 to 119 bps, despite on-loan values decreasing by 11 per cent. This increase offset a YoY decrease of 37 per cent in Europe, Middle-East and Africa, which was driven by a drop in both fees and on-loan balances. Fixed-income securities' global revenue generated from government debt rose by 25 per cent, while revenue from corporate debt increased 33 per cent YoY.

The top five earners in July 2021 — Coupang, Curevac, Didi Global, iShares iBoxx $ High Yield Corporate Bond ETF and VMware — generated over $58 million in revenue in the month of July.

DataLend tracks daily market movements and provides analytics across more than 59,000 unique securities in the $2.6 trillion securities finance market.

ISLA to consult on ESMA's updated SFTR reporting rules

Following an update to SFTR Validation Rules and XML Schemas, ISLA has said it will review the changes as part of its SFTR working group to consider their implications.

The European Securities and Markets Authority (ESMA) made the update on 29 July, following a review of the proposed changes by the ISO Evaluation Group in June, with the update expected to take effect on 31 January 2022.

ESMA's rules and guidance on implementing SFTR provisions set out what needs to be reported to TRs — such as legal entity identifier codes — and what guidelines counterparties should take into account when reporting.

These guidelines include the updated validation rules under SFTR and the XML SFTR Reporting Schemas — Counterparty and TR data exchange, Inter-TR data exchange and TR to authority data exchange.

The Securities Financing Transactions Regulation (SFTR) mandates reporting of all securities finance transactions (SFT) to trade repositories (TR) in order to maintain transparency in the markets.

The ISLA SFTR working group contains representatives from buy and sell-side participants, vendors and tri-party agents and focuses on Article 4 requirements with member firms and other industry stakeholders.

The working group acts as a conduit between the market and regulatory bodies such as ESMA and National Competent Authorities.

Broadridge onboards UBS onto distributed ledger repo platform

Broadridge announces that Swiss investment bank UBS has joined the company's distributed ledger repo (DLR) platform, following its launch in June.

The addition of UBS aids the expansion of the DLR network, leveraging Broadridge's fixed income platform that processes over US$6 trillion in average daily volume and includes 20 of the 24 primary dealers.

DLR provides a single platform where market participants agree, execute and settle repo

transactions. Under a digital repo approach, collateral can be detached from the trade agreement, while the cash remains off-chain.

Paul Chiappetta, Americas COO of group treasury at UBS says: “This partnership reinforces our overall digital strategy, leveraging new technologies aimed at reducing risk and improving efficiencies in the financial markets.”

Vijay Mayadas, president of capital markets at Broadridge, adds: “In the first weeks since the launch, DLR has executed US$35 billion in average daily volume, a testament to the platform, which we expect to continue to grow as additional clients join the platform.”

DLR allows for the immobilisation of the underlying securities in the repo transactions, while transferring ownership via smart contracts executed on the platform.

The platform’s functionality was created to reduce the operating cost and risk of all repo activity, including intraday, overnight and term repos, both on a bilateral and intracompany basis and reduces counterparty risk while increasing ease of audit.

LCH SA expands clearing model to include Euro repo clearing

LCH SA, LCH Group’s Paris-based clearing house, has expanded its sponsored clearing model to include Euro repo clearing.

LCH SA’s sponsored clearing model is based on open access and has been developed to provide participants with a choice of trading venues and settlement options.

The expansion will enable buy-side firms to directly access repo clearing at LCH SA, which will include access to LCH SA’s tri-party basket repo clearing service, €GCPlus.

Buy-side firms such as pension funds and insurance firms are now able to access LCH SA’s RepoClear via a sponsorship model, whereby an agent bank provides support to the sponsored member.

This support includes facilitating margin payments and providing default fund contributions for transactions made by the sponsored member. The move builds on the model offering access to LCH, which launched in 2017.

Current members of LCH SA’s RepoClear will benefit from increased capacity and access to the service’s deep netting pool, as well as achieving price and settlement efficiencies, LCH SA claims.

Tradeweb is the first trading venue to offer access to the sponsored clearing service at LCH SA.

Enrico Bruni, head of Europe & Asia business at Tradeweb, says: “We are delighted to connect to LCH SA to offer our buy-side customers access to the large pool of cleared repo liquidity at RepoClear. This is an exciting milestone for the market and we are proud to be the first trading venue to provide access to this service, further enhancing our clients’ workflows.”

Corentine Poilvet-Clediere, head of RepoClear, collateral and liquidity at LCH SA, comments: “The rollout of our successful sponsored clearing model to LCH SA is a significant moment for the European fixed income market.”

She adds: “We are delighted to extend the benefits of clearing to an even broader set of market participants. We are looking forward

to continuing to support our customers in achieving balance sheet efficiencies through netting, while significantly reducing counterparty and operational risk.”

Digitisation of financial agreements could save $1.2bn

An independent market study has emphasised the cost saving benefits of agreement digitisation in the financial markets industry.

The study, the findings of which were released on 5 August in a white paper — Are you invested in agreement digitization? An industry view of the cost and value of connecting documents with data? — was commissioned by Acadia and LIKEZERO.

Acadia is a provider of integrated risk management services for the derivatives community and LIKEZERO produces contract risk management and data capture software.

Although the financial industry is starting to embrace digitisation, the report makes clear the swift adoption of agreements digitisation could reap potential industry savings of US$622 million to US$1.19 billion across existing agreements, and US$42 million year-on-year for new Credit Support Annex (CSA) agreements.

The study found digitising agreements saves between $1,100 to $2,100 per agreement or $126m YoY across all types of agreements when considering outright data processing costs. Even with partial automation of data collection and aggregation, firms were split when it came to whether their internal systems are able to take agreement data from multiple sources — just 30 per cent of respondents were confident that internal systems were connected.

While 80 per cent of survey participants indicated their documents were at least partially digitised, many costly manual processes still exist. These manual processes are error-prone and can go unnoticed for years, resulting in the need for sudden and significant adjustment to profit and loss (P&L) when discovered.

Time-to-market challenges impact all participants, the survey finds, as onboarding and negotiation steps slow the process down, which can lead to loss of investment or trading opportunities as markets shift and clients find other counterparties to trade with. The survey was conducted by Aite-Novarica Group between 11 June and 7 July 2021. The company gathered quantitative data and qualitative information from market participants with firms in the study accounting for 59 per cent of the total CSA agreement volume held within Acadia.

Acadia head of industry and regulatory strategy John Pucciarelli says: “The financial crisis highlighted the importance of data and created a path for both buy-side and other sell-side institutions to enhance their agreement process.

“Nearly 15 years later, financial markets are still living in an age where documents are creating data rather than data driving document creation. Our findings reflect what we are hearing from clients — there’s a strong desire for digitisation in agreements and it’s time to fast-track this movement.”

For example, Acadia and LIKEZERO’s document digitisation partnership, offered via Agreement Manager, captures unstructured agreement terms and presents structured data. This process fosters a data model with a single representation of information and forms a continuous bond between data and documents.

LIKEZERO head of strategy Geoff Robinson says: “The findings underscore the significant demand on the operational and commercial data embedded in legal agreements. Complex operating models and a lack of investment in complete digitisation means too many firms are still reliant on manual workarounds that are error-prone and can lead to significant adjustments in risk profiles and P&L.”

Aite-Novarica research director Audrey Blater says: “While ISDA documents were the focus of our study, we found agreement digitisation stretches across an array of legal trading agreements, including those tied to repo and the TBA markets. ISDA agreements tended to be the farthest along the digitisation maturity curve, despite respondents considering them to be in the early- to mid-phases of digitisation.”

Tradeweb reports July increase in repo trading

Tradeweb Markets has reported a steady increase in repo average daily volumes (ADV) in July.

Repo ADV reached 38.9 per cent YoY in July to US$345.1 billion.

The increase reported by Tradeweb is due to the continued addition of new clients on the platform.

However, the retail money markets activity remained pressured by the low interest rate environment.

Client growth and adoption drove up volumes in US equities, with U.S. exchange-traded fund (ETF) ADV up 89.4 per cent YoY to $6.2 billion and European ETF ADV up 43.9 per cent YoY to $2.5 billion, on Tradeweb.

The total trading volume for July was $20.6 trillion and ADV across all trading products increased 34.2 per cent YoY to $972.2 billion. In US credit trading, client use of Tradeweb AllTrade protocols reached new highs in high grade and high yield TRACE activity, rising to 20.2 per cent and 9.9 per cent for the month of July.

Lee Olesky, Tradeweb CEO, says: “Tradeweb’s diversified growth continued in July, with strong year-over-year volume gains in government bonds, swaps, credit and repos. Our credit volumes were higher in the U.S. and Europe, and in U.S. high yield we captured record market share as more clients were active in anonymous and portfolio trading.”

Short selling most lucrative investment strategy for hedge funds in June

Short selling was the most profitable hedge fund strategy in the month of June, according to EDHEC-Risk Institute.

Hedge fund strategies delivered lower returns than their average over the last 12 months, with short selling being the best performing strategy in the EDHEC-Risk hedge fund universe at 3.41 per cent, far ahead of Distressed Securities at 1.03 per cent and Emerging Markets at 0.96 per cent. In this environment, most hedge fund strategies delivered positive returns, with three exceptions — CTA Global (-0.56 per cent), Fixed-Income Arbitrage (-0.31 per cent) and Global Macro (-1.16 per cent), the lowest performing strategy.

The equity-oriented strategies in the EDHEC-Risk hedge fund universe delivered modest growth — 0.18 per cent month-on-month for long/short equity, 0.25 per cent for event-driven strategies and 0.27 per cent for market-neutral strategies.

Overall, the Funds of Funds strategy posted a positive but weak return of 0.35 per cent, well below the performance of the S&P 500.

The S&P 500 delivered a positive return of 2.3 per cent in June, registering its fifth consecutive month of profits and a cumulative 15 per cent increase since the beginning of the year.

Market implied volatility decreased, for the fourth consecutive month, to 16 per cent, returning to pre-pandemic levels of 2019. The dollar also rose quite strongly in June — by 2.59 per cent — after two months of decrease.

The institute, in partnership with industry leaders, comprises a team of permanent professors, engineers and support staff, as well as affiliate professors and research associates.

The new space race

Carmella Haswell reports

With investment in SPACs skyrocketing over the past year, the FCA has published new listing rules to open up the UK market to SPACs and protect investors. But is it enough?

The use of special-purpose acquisition companies (SPAC) has gained traction in the past year, riding a post-pandemic wave of market activity. Growing in popularity within the US, the trend has transcended across the UK and to the rest of Europe.

Hedge funds have been heavy investors in SPACs, fuelling the trend that has made its way across the Atlantic. Many hedge fund managers view SPACs as an attractive investment with moderate risk, where the value of SPAC units will typically rise if the SPAC company makes successful acquisitions but investors may redeem their holdings and receive their investment back under certain conditions.

SPACs are companies with no commercial operations that are formed strictly to raise capital through an initial public offering, for the purpose of acquiring an existing company. Richard Branson found himself in a high profile SPAC deal that saw Social Capital Hedosophia Holdings buy a 49 per cent stake in Virgin Galactic for US$800 million, before listing the company in 2019.

Despite providing investment opportunities in the UK market and offering an alternate source of funding, industry watchdogs such as the Financial Conduct Authority (FCA) have warned investors about risks associated with these investments. Concerns surrounding the use of SPACs involve dilution risks, where there is potential for a company to issue more stock, thereby diluting the percentage ownership of all the existing shareholders.

A conflict of interest regarding sponsors' incentives may occur if SPACs do not disclose the circumstances surrounding a sponsor's financial incentives and how they may not align with those of the public investors. Additionally, there may be uncertainty regarding the identity and valuation of a target company that the SPAC is to acquire.

The FCA refined their listing rules to protect investors, by lowering the minimum amount a SPAC needs to raise at initial listing to £100 million, an option to extend the two-year-time-limited operating period and remove the presumption that the FCA will suspend the listing of a SPAC when it identifies a potential acquisition target.

The domino effect

In the first half of 2021, there were more than 400 SPACs scrutinising the US markets for targets, according to UK law firm Rahman Ravelli, so it comes as no surprise that they wanted to expand their services across Europe.

Speaking to SFT, Syedur Rahman, legal director at Rahman Ravelli, says: "SPACs have been around for decades, but recently gained substantial popularity because of how quickly you can take companies to market and enable companies to list in the public markets. It's obviously quite clear that the UK would like to entice tech companies to nest here, which is why changes are being made to the UK listing rules. The whole aim is really to attract SPACs into the UK market."

He warns that the rise in SPACs could have catastrophic effects if people are not careful in how they operate, especially for private equity firms. One of the biggest risks comes from the two-year-time-limited operating period, dictating that a SPAC must complete a deal within this timeframe, or otherwise any money raised from public shareholders will need to be returned to those investors.

"This could lead to a whole host of issues because it might mean that you have to rush the process," says Rahman. "A lack of due diligence by the SPAC sponsors is one of the many litigation risks. There could also be litigation where the SPACs of the target company might sue each other due to poor performance or as a result of unsuccessful negotiations, for example."

Rahman also referred to possible "pump and dump" scenarios being on the rise. This is an illegal scheme to boost a security's price based on false, misleading, or greatly exaggerated statements.

There are further issues surrounding SPACs, including the FCA's £100 million initial listing target. Rahman adds: " the SPAC's could potentially inflate numbers, and misrepresent the true financial health of the target company just to complete the acquisition within the required timeframe. It is a criminal offence if you knowingly or recklessly create a false impression, which then causes a loss to others."

However, Pascal Rapallino, group investment structuring leader at IQ-EQ, believes SPACs to be less risky than traditional IPOs. He comments: "The growing popularity of SPACs can be attributed to the fact that they have created an alternative path to liquidity for investors and businesses anxious to avoid a long and costly IPO process. SPACs are a faster and, arguably, a less risky path to going public, especially for small to mid-sized companies.

"As a result, in the US, SPACs represented about 60 per cent of all IPOs in 2020," says Rapallino. "Although this is beginning to slow down in the US, interest in SPACs is still at an early stage in Europe. Globally, SPACs have raised nearly US$100 billion from IPOs in the first quarter of 2021, already surpassing all of 2020."

Rahman says it's far too soon to say if the risks that SPACs bring outweigh the benefits and we may not know for another six months to three years. The key, it seems, is to learn from the US markets, who have been experiencing this spark in SPACs much longer than the UK. He comments: "I think it's a very good opportunity for the UK and the UK market, but you have to be aware of some of the significant risks that come with it.

"We can see that there are investor protections put in place by the FCA. However, it's similar to what we've seen in the US, for example, we're already seeing SPAC related litigation in the US. I don't think the UK regulators have anticipated that yet."

Despite Rahman's thoughts on the FCA's newest regulations that came into force on 10 August, Andrew Poole, group director of the ACA Group, welcomes the new rules, saying these offer greater flexibility for sponsors.

He says: "Sponsors of SPACs, which includes the private equity market, should welcome these changes. The lowering of the minimum amount required to £100 million provides greater flexibility for sponsors and allows private companies of £500 million to be targeted.

"In addition, the continued protections offered by the new listing rules should give comfort to investors, with the redemption offer preventing investors being locked into a transaction that they perhaps are not fully onboard with."

Future predictions

Looking forward, Rahman Ravelli anticipates an increase in SPACs coming into the UK, and more importantly, there is going to be a lot of cross litigation. "SPAC sponsors will likely sue its directors or we're likely to see shareholders of SPACs sue their directors for breach of fiduciary duties," Rahman says.

IQ-EQ's Rapallino adds: "Private equity firms have always had to compete for high quality assets, even before SPACs exploded onto the scene. There is undoubtedly potential for overlapping targets between SPACs and private equity firms and some firms have expressed justifiable concern about the impact SPACs could have on deal flow and valuations."

According to Rapallino, existing SPACs are currently on track to announce deals valued at more than US$800 billion over the next two years. However, SPACs might provide more opportunity than threat to private equity firms. "Only 8 per cent of fund managers surveyed in November 2020 for Preqin's 2021 Global Private Equity & Venture Capital Report said they had competed with a SPAC for an acquisition, and just 1 per cent of those had actually lost out on a deal," he says.

Although the SPAC market in the US has found huge success, the same might not be said for the UK, according to Harry Stahl, director of strategy and solutions management at FIS.

He comments: "The FCA's proposed changes would significantly improve the attractiveness of the London Stock Exchange for companies looking to go public via a SPAC. SPACs are structured differently in the US compared to the UK. With New York-listed SPACs, investors can redeem their shares if they're unhappy with the target firm. This is not the case in London, where trading is suspended when a merger is announced.

"It's unlikely that London will ever catch up with Wall Street on this particular trend, but there's definitely a place for the UK in the long-term development of this market. The FCA's changes are an important step in this direction."

Only time will tell what effect SPACs will have on future investors and private equity firms, but many will be cautious, evaluating the situation in the UK SPAC market. The International Organisation of Securities Commissions (IOSCO) are planning to do just that, as they create a SPAC Network to facilitate information sharing to monitor the situation and they're not the only ones.

"Regulators across Europe are monitoring the growing SPAC market with what may be described as 'moderate concern'," Poole comments. "ESMA stated that SPACs 'may not be appropriate for all investors' due to inherent conflicts and dilution risk, areas that the FCA is specifically looking to address.

"It remains to be seen if the changes to the UK listing rules will attract SPAC issuance to the London exchanges, but the pace at which the UK has adapted its rules may indicate an increased appetite for regulatory flexibility, especially as 'equivalence' is no longer a viable target for the UK markets."

Understanding Archegos

Bob Currie reports

Credit Suisse suffered losses of close to US$5.5 billion from the default of Archegos Capital Management. It identifies management failure and a focus on short-term profit at the heart of what went wrong

The market value of Archegos Capital Management's investment holdings plummeted during the week of 22 March 2021, driven by a price slide in a number of single-name tech stocks, particularly ViacomCBS, in which Archegos had a large and heavily leveraged position. This triggered a chain reaction that resulted ultimately in the company's default.

A 170-page report by a Credit Suisse (CS) Group Special Committee makes candid and at times highly critical observations about the engagements of the investment bank, and specifically its prime services division, with Archegos in the lead up to the hedge fund's closure.

The report, seen by Securities Finance Times, was published on 29 July 2021 and presents the findings of a CS Group Special Committee, on behalf of its board of directors, into the circumstances that led to Archegos' collapse and the large financial losses and reputational damage sustained by the investment bank (subsequently referred to as the 'Special Committee report').

This event resulted in combined losses of more than US$10 billion for the prime services divisions of global investment banks, including CS, Morgan Stanley, Nomura, and UBS.

Other investment banks, including Deutsche Bank, Goldman Sachs and Wells Fargo, are known to have had trading relationships with the hedge fund, but claim to have unwound their exposures with minimal financial loss.

This event has prompted buy and sell-side firms across the investment industry to reassess how they manage counterparty risk and market risk — and how they will structure their securities financing and liquidity management strategies in times ahead.

One large UK-based asset management firm told SFT that, following concerns raised by the GameStop short squeeze and the Archegos default, it had conducted a root and branch internal review of the risk controls associated with its investment processes, including the role that securities lending should play in its future business strategy.

CS suffered around US$5.5 billion in losses following the default of Archegos Capital Management, which the report describes as the family office of Sung Kook "Bill" Hwang, a former hedge fund manager located in New York.

To investigate its losses, and to provide a foundation for remedial action, the bank appointed a review committee consisting of four directors, working alongside its law firm Paul, Weiss, Rifkind, Wharton and Garrison, and a team of expert advisers.

The research was conducted over a three-month period and was based on interviews with 80 current and former CS employees, along with access to a large pool of CS documents and other data. This is the first in a series of articles in SFT that will analyse the collapse of Archegos, how counterparties and service providers managed their relationships with the hedge fund, and lessons we can draw for the future.

Fundamental failure

Central to the losses sustained by CS as a result of the Archegos default, the investigation identifies "a fundamental failure of management and controls in CS' investment bank and, specifically, its prime services business". This business, the report concluded, was focused on generating short-term profits and failed to control — indeed, it actively enabled — Archegos' "voracious risk taking".

The internal investigation points to warning signals that were dismissed or ignored, including Archegos' repeated limit breaches which, it says, provided indication that the buy-side firm's "concentrated, volatile and heavily under-margined" swap positions posed a threat to CS. However, the CS business, from its risk managers to the global head of equities, failed to act on these warnings, despite attempts by some individuals within the organisation to ensure that appropriate action was taken.

On the basis of these findings, the Special Committee report is critical of CS' risk culture, particularly a prime services business that had a "lackadaisical attitude" to risk discipline and risk systems that flagged up acute risks but were then ignored systematically by business and risk managers.

It also identifies a "cultural unwillingness" to enter into challenging discussions or to escalate issues that presented grave economic and reputational risk to the organisation.

The Archegos relationship

Tiger Asia (as Archegos Capital Management was initially known) became a CS client for cash equities trading in 2003. It later became a prime services client in 2005 when it started trading in equity swaps, conducting most of its business activities through CS prime services in New York. As Tiger Asia, it invested primarily through long-short equity and long-only equity strategies, with a focus on Asian securities.

The investment bank's relationship with Archegos was primarily through its prime services division and specifically its prime brokerage (PB) and prime financing sub-units. PB handled the fund manager's cash securities trading (traditional securities finance, custody and clearing), while prime financing handled its synthetic trading (derivatives, including swaps, and other types of synthetic position).

Significantly, the Special Committee report makes it clear that both prime brokerage and prime financing are "intended to be low-risk businesses" (original emphasis). Counterparty risk, it notes, should be evaluated and then offset through effective margin management. Market risk should be evaluated and then offset through effective hedging (p 5).

In managing its relationships with buy-side clients, CS indicates that it operates multiple lines of risk defence. The business unit, in this case the prime services division, provides the first layer of defence, with each business employee directly responsible for protecting the bank against losses. Prime services maintains an in-house risk management unit named Prime Services Risk (PSR) that, among other duties, sets margin rates and manages other risk controls in dialogue with traders and clients.

A bank-level risk division, Credit Risk Management (CRM), provides a second line of defence, responsible for evaluating credit risk across all of the investment bank's business lines while acting independently of any individual business unit. This includes conducting annual counterparty risk reviews, assigning an internal credit rating to the counterparty, and setting counterparty trading limits for the prime services division and other business units.

Warning signals

Concerns were developing within the investment industry about aspects of Tiger Asia's conduct and integrity well before the Archegos default in early 2021.

Specifically, in 2012, Tiger Asia and Hwang paid to settle a charge with the US Securities and Exchange Commission (SEC) relating to insider trading allegations. Around the same time, it pleaded guilty to the US Department of Justice (DoJ) in connection to wire fraud charges. Following these events, CS reports that Tiger Asia returned assets to its external investors and relaunched as Archegos, a family office for the Hwang family with close to US$500 million in assets.

In 2014, Hwang and Archegos were banned for four years from trading in Hong Kong. Subsequently, Archegos moved its trading strategy with CS primarily to US equities, including US American Depositary Receipts (ADRs) of Asian issuers.

The Special Committee inquiry concluded that CS continued to conduct business with Archegos throughout these regulatory and criminal investigations. Significantly, it found no evidence that CS directed additional monitoring or scrutiny to Tiger Asia or Hwang's activities as a result of red flags raised by these events (p 4).

When the prime services division, at the request of the CS Compliance team, conducted a reputational risk review of Archegos in 2015, it dismissed the settlements with SEC, the guilty plea to the US DoJ and the HK trading ban as "isolated, one-time events". It advised that CS should continue trading with the hedge fund based on the latter's "strong market performance" and "self-proclaimed 'best in class' infrastructure and compliance (as represented by Archegos to CS)".

When the Hong Kong trading ban on Archegos was lifted in 2018, CS prime services indicated its interest to resume trading with the fund manager in Asia. Prior to doing so, CS conducted a second reputational risk assessment on the client. This arrived at similar conclusions to the assessment conducted in 2015, according to the Special Committee report, thereby providing the green light for prime services to resume trading with Archegos in the APAC region.

Although CS' compliance division raised concerns at this time about retaining Hwang as a client, "its concerns were allayed without any in-depth evaluation of the potential reputational risk to CS" and no limitations were placed on CS' business relationships with Archegos as a result of these reputational reviews, says the subsequent investigation.

Margin management

The Special Committee report concludes that the Archegos scenario raises questions about the competence of business and risk managers that had "all the information required" to recognise the size and urgency of Archegos risks but failed on multiple occasions to take decisive action.

This is not a case where CS business and risk staff engaged in fraudulent practices or acted with ill intent, says this report. It was also not the result of a risk architecture which failed to identify critical risk. On the contrary, "the Archegos risks were identified and were conspicuous", it said.

One prominent example was the margin strategy that the prime services division applied in its relationship with Archegos.

Archegos' portfolio with CS' prime brokerage division was dynamically margined, thereby accommodating market movements, volatility, concentration and controls for bias into the margin requirements requested by the prime broker.

In contrast, Archegos' swap trades, which were handled by CS' prime financing division, were statically margined — initial margin (IM) was calculated on the basis of the notional value of the swap contract at inception and remained static in USD terms over the lifecycle of the swap.

"The Special Committee report is critical of a 'lackadaisical attitude' to risk discipline and risk systems that flagged up acute risks but were then ignored systematically by business and risk managers."

The result was that as CS' exposure to its counterparty grew larger – with changes in the value, concentration and long-short bias of Archegos' portfolio – so the margin it held for the prime financing book became increasingly inadequate to cover this exposure.

In 2017, changes in Archegos' PB portfolio prompted CS to issue a request for additional margin. However, Archegos asked for this request to be dropped on the grounds that its short swaps portfolio held with CS' prime financing unit offset its long-biased prime brokerage portfolio. Since the netted exposure was close to market neutral, Archegos made the case that the 10 per cent directional bias add on ('net bias add on'), which triggered the request for the margin call, should not be applied.

CS agreed to drop its request for additional margin, providing that Archegos' combined portfolio bias did not exceed 75 per cent either long or short.

Over the next few years, Archegos' portfolio did periodically breach the 75 per cent threshold, but CS, in each instance, granted a grace period, sometimes stretching to five months, to bring this back below the threshold. "The business appears to have relied on Archegos' assurances that it would reduce the bias, and Archegos generally did, though this dynamic repeated several times over the next few years, reflecting the business' accommodative approach to Archegos," said the Special Committee report (p 8).

In a separate communication, Archegos asked CS during 2019 to lower its swap margins. Archegos made the case that other prime brokers were offering lower margin rates than CS and they also allowed Archegos to cross-margin swaps and cash equities — enabling these to be covered by a single margin call — a service that CS did not extend to Archegos (p 8-9).

Subsequently, CS agreed to the client's request to post lower margin for its prime financing portfolio. In doing so, CS still had contractual protection in place – including a right to terminate swaps on a daily basis and to change IM amounts at its discretion. However, the Special Committee inquiry concluded that the contractual protection the bank had negotiated with Archegos was "illusory", since the business had no intention of invoking these safeguards for fear of antagonising the client (p 14). Moreover, it found that the decision to reduce margin requirements prompted Archegos to significantly increase its swap exposure with CS.

During 2020, CS' risk exposure to Archegos rose substantially — and by the end of February, a small short bias in Archegos' aggregate portfolio had been displaced by a net long bias of more than 35 per cent. With this development, the justification that previously existed for removing the 'net bias add on' — that the swaps portfolio was balancing out the PB portfolio — no longer existed. However, CS did not re-impose the bias add-ons and require Archegos to post additional margin.

Significantly, when the prime finance team reduced the swap margin as described above, Archegos began to relocate long swap contracts from the prime brokerage unit (where this activity had previously been held) to the prime financing business at the lower margin rate. According to the Special Committee report, Archegos' swap exposure mushroomed to US$9.5 billion, three-quarters of which was long. Archegos' swap exposure in prime financing, at US$7.1billion, represented 74 per cent of its gross portfolio value held with CS — and this was margined at 5.9 per cent, in contrast to a 15 per cent margin rate on the PB book (p 11).

During the Spring of 2020, Archegos was regularly breaching its potential exposure limits, according to the Special Committee report. In April 2020, its potential exposure was more than 10 times its £20 million limit and the weak performance of the fund had caused its NAV to drop from US$3.5 billion in February to close to US$2 billion in April (p 12).

Notwithstanding, the prime services business team confirmed that it remained comfortable with the margin framework applied to Archegos' business across prime brokerage and prime financing portfolios when asked to do so by the CRM team.

By August, its potential exposure had stretched to US$530 million against a US$20 million limit. "Because potential exposure (PE) limit breaches are intended to be rare and consequential events, Archegos was included on a list of PE offenders sent to the Credit Control Group, a division of CRM," says the investigation report. It also continued to raise alarms owing to regular scenario exposure breaches.

Further analysis of the events leading up to Archegos' default, along with the response of counterparties and service partners, will follow in the next part of this article.

Primary conclusions

It is likely that Archegos deceived Credit Suisse and obfuscated the true extent of its positions, which Archegos amassed in the midst of an unprecedented pandemic (p 23).

So say the findings of the CS Special Committee report on Archegos Capital Management.

This said, the Special Committee judged that the prime services business team and CS' risk management division had "ample information" well before the events of the week of 22 March 2021, when Archegos defaulted, that should have triggered action to at least partially mitigate the risks that the hedge fund posed to CS.

Expanding on these findings, the Special Committee concluded that the prime services business mismanaged the Archegos situation at multiple levels. Senior staff had information that Archegos' risks were mounting, including reports sent to co-heads of prime services and the head of equities. The business either ignored these risks or lacked the competence to appreciate their significance, it says – but, either way, “the business was focused on increasing Archegos’ revenues with CS, even at the expense of increasing the risk to CS far in excess of applicable limits”.

This problem was compounded, says the report, because neither CS co-head believed he “owned” the prime financing US swaps business from a management standpoint and neither actively managed the corresponding risks. Both co-heads were “double hatted”, with multiple responsibilities and overrun with management information which undermined the overall management of the business (p 24).

The report adds that traders absolved themselves of responsibility for credit risk, neglected to conduct pre-trade credit checks and relied almost entirely on risk opinion from Prime Services Risk (PSR).

Only one committee, the investment bank’s Counterparty Oversight Committee (CPOC) [discussed in further detail in the next part of this article], considered the Archegos situation in detail, but this was silo-based in its operation, where each member focused only on counterparties directly relevant to their own business. Significantly, the report finds that this did not offer adequate challenge and professional scepticism regarding the risk mitigation measures adopted by the prime services business.

Specifically, the report finds that mismanagement of the Archegos situation by the prime services business was “manifest from start to finish”. It concludes that the business should not have taken on such a large, concentrated, illiquid exposure to Archegos as a counterparty, especially in light of the client’s own large and unconcentrated underlying market risk.

Moreover, given that CS was taking on significant risk through its prime services relationship with Archegos, it was incumbent on the business to make sure that the hedge fund was posting sufficient margin to safeguard CS in the event of its default. The Special Committee finds that the business failed to exercise its contractual rights – for example the right to request additional margin at 3-days’ notice – and to engage Archegos in “difficult conversations”. Instead, it focused on engaging on terms that would not endanger its future business relationship with the hedge fund.

In evaluating limit breaches, the Special Committee concludes that the prime services business tended to side with Archegos. In 2019, the business argued on the fund manager’s behalf to lower its standard margin level on swaps to 7.5 per cent, from an average of 20 per cent, because the swaps portfolio had a significant short bias and this offset the long bias in Archegos’ prime brokerage portfolio.

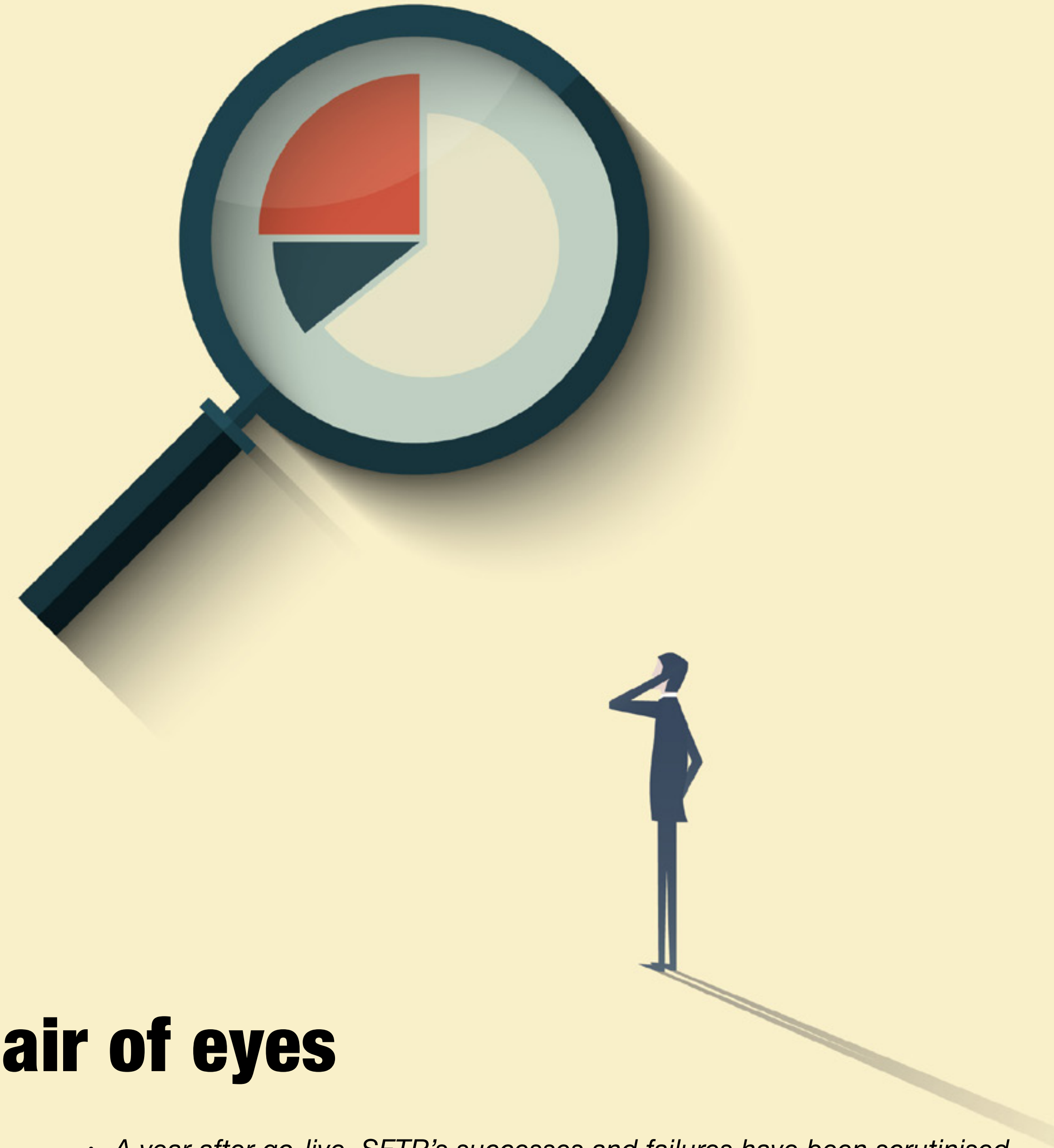
Less than 12 months later, when Archegos’ swaps portfolio developed a substantial long bias and this justification no longer applied, the prime services business failed to restore the fund manager’s margins to standard margin levels (of 15-25 per cent). By September 2020, the average margin rate on Archegos’ swaps portfolio, now holding a significant long bias, was less than 6 per cent (p 25).

At the same time, the risk management team failed to impose deadlines for the client to eliminate limit breaches. While CRM had non-public information indicating that Archegos had concentrated exposure with other prime brokers to the same single name positions that it held with CS, the CRM failed to push for additional disclosure from the client to assess the extent of this risk and to mitigate it.

By February 2021, one month before its default, Archegos had a portfolio that was among the most concentrated, leveraged and volatile of all CS hedge fund clients, according to the Special Committee report. It also had the largest notional exposure of all the bank’s prime financing clients and with the largest margin breaches.

At its heart, “CS failed to address a culture that encouraged excessive risk-taking and injudicious cost cutting, as well as a complex and siloed organisational structure that impeded the swift identification, understanding and escalation of risk”. (p 30)

While the Special Committee report is heavily critical and demonstrates deeply rooted failures in CS’ risk management and business culture, its detailed analysis provides an important starting point for remedial action. SFT will discuss these findings more fully in the next part of this article.



Fresh pair of eyes

Alex Pugh reports

A year after go-live, SFTR's successes and failures have been scrutinised in a Pirum and IHS Markit survey — IHS Markit's executive director for SFTR Fabien Romero and Que-Phuong Dufournet-Tran, director for trading services and analytics and regulatory affairs, spoke to SFT about the lessons learned, what work still needs to be done and why SFTR is a model for future regulations

Following the go-live of the Securities Financing Transactions Regulation (SFTR) in July 2020, Pirum and IHS Markit's SFTR Post-Implementation Industry Survey, conducted a year later, found that over 70 per cent of respondents — banks, asset managers, hedge funds and brokers — aim to consolidate their various regulatory reporting requirements.

The benefits of outsourcing regulatory reporting to third parties, such as IHS Markit, were clear, the survey showed — offering advantages 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.

Other key considerations for firms were data harmonisation, improving overall data quality and enhancing the quality and accuracy of their reporting, particularly for collateral data to meet regulatory requirements for greater 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. Unique trade identifier (UTI) pairing was probably the major challenge going into SFTR, according to respondents. But 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, only 28 per cent of respondents are satisfied with their UTI pairing for EMIR several years after implementation.

On a positive note, regulators have learnt lessons from previous regimes and SFTR appears likely to be the model on which future regulatory reporting requirements are based, the report said. With over 70 per cent of respondents claiming they aim to bring together their various regulatory reporting requirements under a single platform in the not-too-distant future, firms may face challenges in consolidating their reporting requirements. But there are clear upsides.

The number of regulations worldwide that global firms, and local firms, are subject to is expanding, IHS Markit's executive director for SFTR Fabien Romero said. There may be different nuances of the same regulation being implemented across different regions and, for those firms with a global reach, it makes sense to manage all these various regulations in an integrated way.

"You need to report, you need to report everything and you need to report on time. Provided that you have these different things covered, then you are in-scope."

In the past, many firms had a tactical approach to these various regulations, where they would handle them individually, creating new teams. Now, based on the sheer volume of the reporting and its associated complexity, it is more efficient for firms to approach this using a single, integrated team to manage this change agenda.

There is a push from regulators around the world for data harmonisation, recognising the advantages for data quality in leveraging the same underlying data and the cost benefits of eliminating duplicate reporting and processes. It is important to move away from legacy systems and have efficient streamlined data management, collection and reporting. "The path to achieve data consolidation and harmonisation is as important as the ultimate longer term objective, with everybody moving in the same direction," said Que-Phuong Dufournet-Tran, director for trading services and analytics and regulatory affairs at IHS Markit.

Firms that have already invested heavily in in-house technology to meet regulatory reporting needs may find it difficult to abandon their legacy systems in favour of an outsourced service from a third-party. But there are potential benefits to switching. Regulations and requirements constantly evolve and this can present a heavy maintenance overhead in keeping internal systems up-to-date. But as a third-party vendor you can leverage insight

“There has been a push from regulators for data harmonisation, utilising industry standards whenever possible.”

and learnings across 200-plus clients or members, and share the cost across a wide community of users, Romero said.

For firms that continue to maintain their own internal systems, third-party providers can bring added value in terms of the analytics and reporting tools they offer to clients. The survey identified improving overall data quality as a top priority for respondents and Dufournet-Tran related the question of improving data quality back to the previous point on controls and monitoring. “You need to have the tools to go to the root cause of an issue — beyond the 98 per cent acknowledgement ratio at the trade repository for the market, what about the report content, how does it tie back to the process?”

Firms also need to have the right people, with adequate expertise in terms of technology, business and knowledge across regulations. And firms must work on improving the quality and accuracy of their reporting, particularly around collateral data to meet the regulators’ objectives, the survey found, which is to promote greater transparency as prioritised in the ESMA, EMIR and SFTR data quality report of April 2021.

But there are still key steps before achieving this objective. “With SFTR, collateral data still has a lot of structural issues,” Dufournet-Tran said. For example, before getting the collateral data fully correct, firms need to have correct ISO XML schemas and validation rules.

In line with this point, there has been a push from regulators for data harmonisation, utilising industry standards whenever possible — including ISO standards such as ISO 20022 for messages and ISO 17442 for Legal Entities Identifiers, for example.

For derivatives, the Critical Data Elements (CDE) 100 fields have been selected as key to defining a derivative as per the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO), with CDE now governed by the Regulatory Oversight Committee (ROC) since October 2020.

This means that if the US, Asia or EU want to pick a field within the 100 Critical Data Elements, they would have to agree on the definition and the format. “But a one-size-fits-all approach is not always feasible,” Dufournet-Tran added, so international bodies such as the ROC allow discussion of data harmonisation.

There are also industry efforts or public-private initiatives, such as the Bank of England’s Data Collection programme, which provide a forum that bridges financial regulators, the industry and third party providers. The European Commission EU financial data space has developed a supervisory reporting strategy with ‘SupTech’ and ‘RegTech’ supervisory and regulatory technology, promoting data standards and sharing, and digital finance.
“There are also working groups from the trade bodies and associations that, as a company, we are a member of,” Romero said. ICMA, ISLA and ISDA have various working groups around this field, “so we encourage firms to take part in these groups just to make sure they are aware of all the work which is being done in terms of data harmonisation.”

While fines for SFTR non-compliance or inaccuracy haven’t been levied to date, regulators have shown that as new reporting regulations are bedded down, they expect firms that are in scope to ensure they are reporting accurately and promptly. But just how well are in-scope firms now equipped to meet this obligation? Romero outlined what it takes to be in compliance once regulators begin doling out fines. “You need to report, you need to report everything and you need to report on time. Provided that you have these different things covered, then you are in-scope. I think that we really need to stress the audit and control function," Dufournet-Tran noted. "You may not achieve 100 per cent of pairing but if there is an issue then you need to be able to document and trace back quickly to the root cause, and the tools to achieve that are extremely important."

Past experience

Having learnt lessons from previous regimes such as EMIR and MiFIR, regulators have taken these on board and SFTR appears likely to be the model on which future regulatory reporting requirements are based. Drawing comparisons between previous regulations and SFTR, Dufournet-Tran said the controls were the 'forgotten child' for EMIR, because they were put in place after the regulation was implemented. Whereas with SFTR, controls have been built as far as feasible at the same time as the reporting function. And industry engagement was stronger for SFTR with more testing efforts — bilateral testing, then multilateral testing, were key and pre-matching platforms allowed for UTI exchange testing prior to go-live on a mass scale.

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

On the 80 per cent of firms who say that they have been able to successfully achieve all or most of their pairing Romero said, "I think we have to take it with a pinch of salt but what we can learn from it is the happiness, the degree of satisfaction, that firms have in terms of where they are versus where they were expecting."

But there does seem to be a higher matching and pairing level in SFTR versus EMIR, due to the fact more testing has been done prior to go-live, more engagement with the industry and between the different participants, and probably with more clarity in terms of controls. With this framework in place, the environment was ready for the moment of trade.

"Having learnt lessons from previous regimes such as EMIR and MiFIR, regulators have taken these on board and SFTR appears likely to be the model on which future regulatory reporting requirements are based."

EMIR pairing rates are at around 50 per cent seven years after the go live, whereas for SFTR the pairing rates are now already at circa 50 per cent at the TR and 80 per cent for trades just one year after the go live. Platforms such as IHS Markit's solution helped with the pairing, Dufournet-Tran noted.

"Before getting to the TR, you need to have a UTI first. Its exchange is achieved through the reconciliation of minimum key pairing fields, which should help both parties communicate to align on bookings, life cycle events and key trade economics," Dufournet-Tran said. For SFTR, firms could already leverage an existing reconciliation process on trade economics for billing and settlement on securities lending and repo.

A significant portion of the market uses the IHS Markit platform and in order for IHS to pair the trade the firm uses the UTI, but it's not absolutely necessary for the pairings. "When it comes to doing the reporting to the trade repository, you would expect that more UTIs have been exchanged to reconcile alongside the minimum fields required by the trade repository," Romero concluded. "So you have all this infrastructure to increase the data quality before it gets to the TR whereas with EMIR you probably didn't have that in place."

Devils and Details

For market data providers, it has taken years of processing to deliver solid, accurate data to a demanding marketplace. FIS' David Lewis evaluates the difficulties that market authorities face in establishing reporting requirements that provide detailed insight into securities finance markets

The Securities Finance Transactions Regulation (SFTR) has been with us for over a year. That's hard to believe given the significant time and effort invested into the build up and launch of the newest and most invasive regulatory reporting requirements to hit the securities finance and collateral industry. Still, as we all know, a lot can change in a short period of time.

As expected, the European Securities and Markets Authority (ESMA) has released a range of changes and updates to the reporting requirements under SFTR. These changes will undergo much scrutiny over the coming weeks as the deadline for adjustments is not far away at all: January 2022. These changes will—the industry hopes—be driven by thorough analysis of the data received so far which, as Jonathan Lee aptly described in SFT Issue 283, is "valid but wrong."

And therein lies the rub. FIS Securities Finance Market Data, which is the new name for Astec Analytics Lending Pit, has been gathering, processing and delivering data to the securities finance and collateral markets for over 20 years. In that time, as you might expect, the business has learned much about gathering and reconciling data and turning it into actionable information.

Indeed, FIS was a member of the Data Experts Group drafted in by ESMA to understand the nuances and pitfalls of data gathering and processing. One of the primary pieces of advice offered at the time was to invest significant effort in deciding what the question is before determining the data that needs to be gathered. Whether that advice was heeded is, of course, a matter of opinion. But the tweaks to the data requirements quietly released on 26 July will give some insight to the level of analysis applied to the data gathered to date and whether it did, indeed, go any way toward answering the question posed by ESMA and the Financial Stability Board (FSB) before them.

The Transparency Directive, as instigated by the FSB, sought to bring certain aspects of "shadow banking" into the light, enabling potential points of failure in the global financial system and, in particular, the financing and collateral industry, to be identified before they brought down the markets they serve. Witness the collateral and securities lending collateral reinvestment damage done when Lehman Brothers went bust in what became known as the Financial Crisis.

Collateral chains

Few could argue that understanding the collateral chains of obligations from one firm to the next would help regulators understand the interdependency of major systemically important financial institutions. However, more may have foreseen just how hard it would be to understand and document those chains of dependency. Andy Dyson, CEO of ISLA, has said that “if you can’t measure it, you can’t manage it,” and those words could certainly ring true with where ESMA is with SFTR, especially when joined with Jonathan Lee’s “valid but wrong” assessment. Those outside the industry may well look at this situation with some incredulity. How can major global financial organisations not know what obligations they have undertaken, in what volume, against what collateral and to who? This question is easy to ask, but harder to answer. They do, of course, know exactly what organisations they have borrowed or lent assets from or to, what their value is and how much they are owed or will pay in fees. This is the data that allows them to function every day in a market where there is between US$2.5 and $3.0 trillion of outstanding loans in place on any average day.

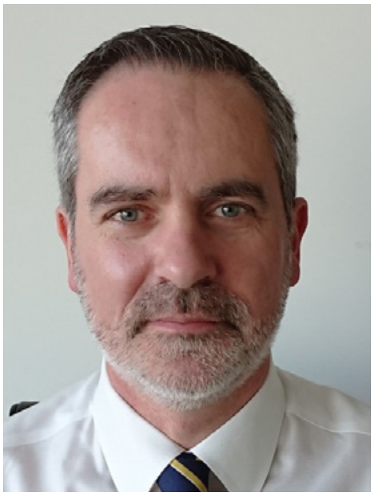
The issues arise when the hundreds of market participants making up that market look to exchange that data between them, let alone when they look to report it to a third party. As the FIS Securities Finance Market Data service experience shows, all market participants appear to store and manage their data in slightly different ways, be that the name of the counterparty or the valuation accuracy of the security lent or borrowed. Typically, agent lenders will also report individual loan transaction allocations, whereas borrowers report a single block trade from a given agent lender.

The implementation of SFTR has changed participants’ approach to a certain amount of these differences, but not all. The identification of counterparts, for example, was a key issue and this was to be solved with the long overdue implementation of Legal Entity Identifiers (LEI codes). Without these, the ability to match loans with borrows in a single-sided reporting regime was going to be immensely difficult. Most of the reporting under SFTR (according to DTCC) is single sided, meaning that the reconciliation and matching process is the responsibility of the trade repositories. These issues have been exacerbated by the inclusion of third parties in the reporting chain compared with direct reporting from participants’ books and records. Many cooks spoiling broth jumps to mind.

FIS knows more than a little about this issue: we gather securities lending borrows and loans from across the world and from most of the participants in the market. Getting both sides of the trade still presents challenges, such as matching lender shapes against borrower blocks, but we can at least reconcile one side against the other to ensure that we do not double count or overstate the market position in any given security.

It has taken years of processing and experience gathering to be able to deliver solid, accurate data to a demanding marketplace, scrutinised in detail every day by exacting clients. On that basis, FIS can more than appreciate the difficulties ESMA is facing in looking to gain important insight into the securities finance and collateral market. To say there is more work to do is perhaps an understatement.

The latest tweaks may well be SFTR 2.0 and may bring improvements to the quality of the data gathered and processed, but the overriding risk remains that poor data that does not perhaps meet the standard of actionable information could lead to poor decision making. Market data providers spend a considerable amount of time and effort on ensuring the data they deliver is accurate, knowing full well that inaccurate information could cause a trading error. However, such things can be corrected and are relatively transient, especially in the world of securities lending. If a regulator is looking to make policy decisions affecting the whole market for extended periods of time, based on potentially inaccurate data, then that is a different issue indeed.



David Lewis
Senior director
FIS Astec Analytics

FIS, IHS Markit, Macquarie Group and FinOptSys latest hires

FinOptSys, a SecFin platform that launched in May, appoints Anthony Caserta as sales director for its New York office.

Caserta will help lead global sales, strategy, and expansion efforts as part of the company's push to grow its client base and global footprint. He will help drive new customer relationships and strengthen existing ones around the world.

Caserta recently resigned from his position at Natixis, where he was responsible for global securities financing client strategies in the US. He held this role for 5 years.

Caserta has 25 years of experience in prime brokerage and equities financing, including 8 years at S3 Partners where he was managing director of securities finance. He also spent a total of 11 years at Goldman Sachs, Abbey National Treasury Services and Banco Santander, where he was on multiple trading desks.

FIS, financial technology specialist, appoints Nancy Steiker as senior director of product group for securities finance.

Steiker will drive the strategy and direction of FIS securities lending processing platform and associated solution components, where she will report to Igor Salzgeber, managing director and global head of securities finance collateral products.

With more than 20 years of experience within capital markets and prime brokerage, Steiker joins FIS from Pirum, where she fulfilled a

Mick Chadwick, Aviva Investors' head of securities finance, has left the company

After 15 years at the helm of Aviva's securities finance team, Chadwick exits as part of a wider cost-cutting initiative in the UK, according to industry sources.

In a long career, Chadwick has served on a number of industry associations and working groups, including the board of the International Securities Lending Association.

Caroline Hedges, Aviva Investors' global head of liquidity portfolio management since June 2018, is now global head of liquidity and securities finance.

Speaking to SFT, an Aviva Investors spokesperson said: "As part of ensuring that Aviva Investors continues to deliver on its strategic objectives, we recently created a new 'Liquidity and Securities Finance' business unit, led by Caroline Hedges who reports to Colin Purdie, CIO, Liquid Markets."

As a result of these changes, we can confirm that Mick Chadwick has left Aviva Investors with our thanks and best wishes for the future."

business development role for post-trade products in the US. Prior to this, she held various positions within the securities finance and collateral industry at EquiLend, Citi, Barclays Capital and Lehman Brothers, covering global trading, operations, and collateral management.

Monique Baines has joined Macquarie Group with responsibility for security lending and short coverage activity within the equity finance business in London.

Prior to Macquarie Group, Baines served as executive director of prime brokerage equity finance at JP Morgan from July 2011 to July 2021.

Before that, Baines was vice president at Morgan Stanley, covering securities lending supply for Japan and Asia.

Baines also served as a securities lending sales trader with the company.

IHS Markit, provider of regulatory technology solutions, appoints Kate Newman as associate director of its global regulatory reporting solutions (GRRS) team.

Based in London, Newman will collaborate with buy-side and sell-side firms in the UK and Ireland, reporting to Charlie Bedford-Forde, head of sales for GRRS.

She joins IHS Markit from UnaVista, part of the London Stock Exchange Group, where she worked for more than four years as a European sales executive for regulatory reporting solutions. Prior to this, Newman was a relationship manager at DTCC, serving the firm’s global buy and sell-side clients.

Ronen Kertis, head of GRRS at IHS Markit says: “We are excited to bring Kate aboard as we continue to build upon our consolidated reporting solution, which enables firms to streamline their transaction reporting and improve target operating models.

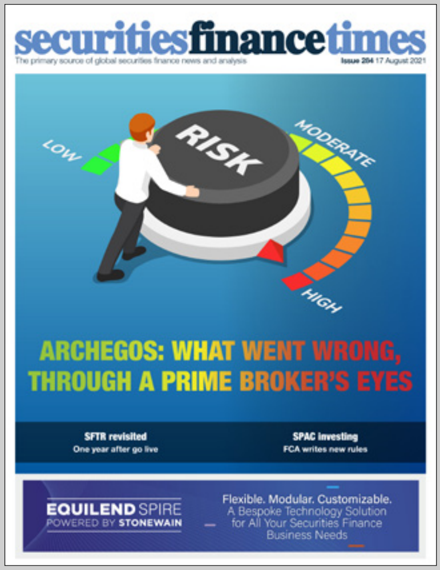
“Kate’s expertise will support us in helping our customers overcome the complexity, fragmentation and uncertainty surrounding regulatory reporting.”

Broadridge, a New York-based financial technology company, has hired Annette Nazareth to its board of directors as an independent member.

Nazareth is a senior counsel of Davis Polk & Wardwell and, until recently, headed the trading and markets practice in Davis Polk’s Financial Institutions Group. During an almost 30 year career, she was a US Securities and Exchange Commission (SEC) commissioner and recognised authority on financial markets regulatory issues.

She joined the SEC Staff in 1998 as a senior counsel to chairman Arthur Levitt and then served as interim director of the division of investment management. She served as director of the division of market regulation from 1999 to 2005, where she oversaw the regulation of broker-dealers, securities exchanges and clearing agencies.

Nazareth says: “As a regulator and in private practice, I have always been impressed with Broadridge’s passion around governance best practices and I look forward to working with management and the board as we continue to address the new challenges of tomorrow.”



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Upcoming Securities Finance Training

Non-Cash Collateral Fundamentals

Date: 12 October 2021
Location: Online
Provider: Consolo

This live on-demand training course is designed for new entrants to the industry who require an overview of the securities lending transaction and process involved in execution.

SFTR Analysis

Date: 15 October 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.