

# The power of reinvention

Matthew Chessum  
on lending growth,  
sustainability and fallout  
from GameStop



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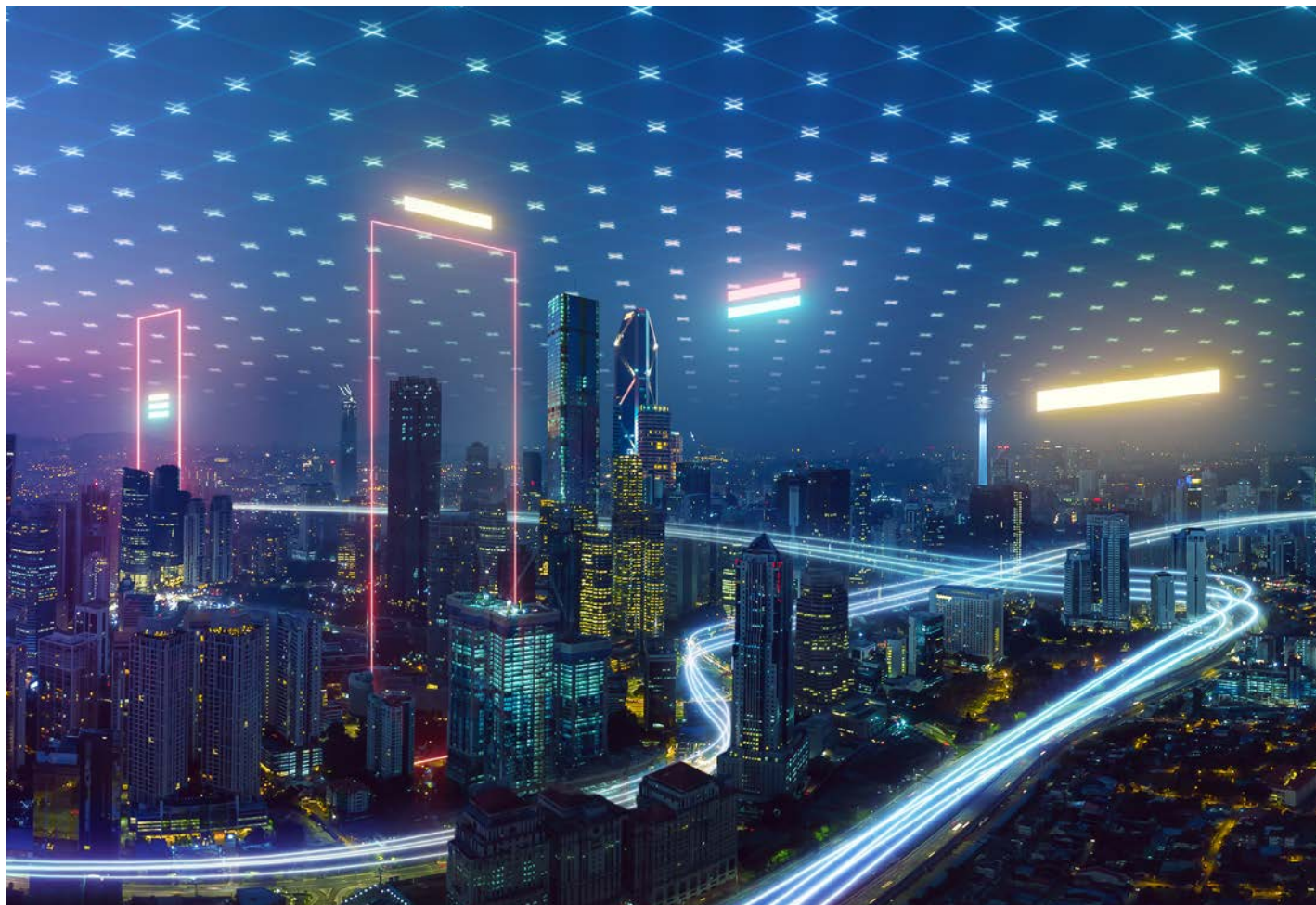


(BNY Mellon Triparty, BNP Paribas Securities Services, Citi - Custodian connecting in 2021)

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## ISLA to release clause library and taxonomy model

The International Securities Lending Association (ISLA) is to release a clause library, a collection of wording variants, and a model taxonomy for distinct business outcomes, in the lead up to full digitisation.

The primary objective of the ISLA Clause Taxonomy and Library Project, due for next month, is to build an industry-wide, foundational clause library for use with the Global Master Securities Lending Agreement (GMSLA). ISLA says it is looking to work on a cross-industry basis to better understand how digital formats of its master

agreements will benefit members and the industry more broadly.

According to ISLA, digital versions of market standard master agreements will, spur the development of an online digital environment which will allow firms to produce, deliver, negotiate and execute documents, as well as capture, process and store data from such documents. "This will, over time, be an integral component of any future digitalised regulatory reporting regime," ISLA says.

Combined with the development of other ISLA

technology initiatives such as the Common Domain Model (CDM), the clause libraries will allow the development of an ecosystem of interoperable platforms to support business.

A separate CDM design group is working to develop the CDM model for the securities lending industry, introducing a common set of processes and data standards to increase automation and efficiency in the securities lending markets. This will provide a foundation upon which smart securities lending contracts can be developed.

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T+1 settlement

### The move to T+1

Kenneth E. Bentsen Jr, president and CEO of the Securities Industry and Financial Markets

Association (SIFMA) and CEO of the Global Financial Markets Association, says that next day

settlement will improve settlement and capital efficiency well beyond levels achieved under T+2

Peer-to-peer

### A lending hand

Rising from the ashes of the credit crunch, peer-to-peer securities lending has opened doors for investors

and borrowers, seemingly providing an attractive alternative to traditional lending mechanisms. Built for

the new age, could this be the way forward for securities lending and repo markets?

Equity specials

### US equity specials ride the roller coaster

Sam Pierson, director of securities finance at IHS Markit, analyses the boom-bust cycle that

continues for US equity specials demand



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### The power of reinvention

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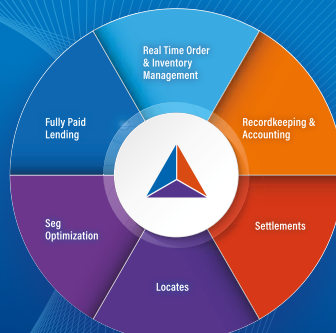
plans to grow the fund manager's lending programme, the fallout from

GameStop and its steps to embrace sustainable development objectives



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## AIX's securities lending transactions total US\$600k

Kazakhstan's Astana International Exchange (AIX) has completed 850,000 securities lending transactions totalling US\$600,000, across seven different currencies, as of 20 August 2021.

AIX first launched its securities lending transaction service in March 2020.

Securities lending and borrowing is available to appointed market makers in Kazakhstan after being authorised by AIX regulation and compliance.

Olivier Gueris, COO of AIX, says: "AIX

offers its market-makers a securities lending service to cover short-selling positions within a robust and proven operational and risk management framework. Worldwide, securities lending is a mature and effective market activity that has persisted through macroeconomic events such as credit shocks, the sovereign bond crisis and now the pandemic."

He adds: "In addition to bringing return benefits to lenders, securities lending plays an important role in the smooth functioning of developed financial markets by supporting market liquidity and efficiency."

## GPFA welcomes OMERS

The Global Peer Financing Association (GPFA) has announced its newest member, OMERS, to its beneficial owner community.

OMERS is a Canadian benefit pension plan which invests and administers pensions for active, deferred and retired employees of municipalities, school boards, libraries, police and fire departments, and other local agencies in communities across Ontario.

Members of GPFA's community work to share best practices and knowledge related to securities finance, as well as support and increase peer-to-peer securities financing trading activity.

## Deutsche Bank completes first ESG-linked repo transaction

Deutsche Bank has completed its first global environmental, social, and governance (ESG) repurchase transaction with Turkey's Akbank.

The structure of the transaction was carried out using electricity generated through renewable resources with no greenfield coal power plant loan origination.



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The US\$300 million (£217 million) transaction is also the first time ESG and sustainability targets have been attached to interbank financing in a repo format in Central and Eastern Europe, Middle East and Africa.

Commenting on the transaction, Sebnem Muratoglu, executive vice president for treasury at Akbank, says: "We recently pledged that we will not be lending to greenfield coal power plant projects, adding them in our exclusion list."

She adds: "We aim to increase the share of sustainable finance-based borrowing transactions in our overall portfolio to 30 per cent by the end of 2021 and this latest transaction with Deutsche Bank also underlines our commitment."

Claire Coustar, global head of ESG for fixed income and currencies and vice chair of Deutsche Bank AS Turkey board of directors, comments: "This transaction demonstrates our joint ability to innovate in ESG as well as stand behind our ESG ambitions through economic alignment."

She adds: "We look forward to further opportunities to collaborate on sustainability initiatives with Akbank and its parent, the Sabanci Group, in the future."

## S3 and SRAX partner to offer short-interest data

SRAX has partnered with S3 to provide information on how short interest and securities finance markets can impact equities pricing.

This collaboration adds S3 Partners' short interest data onto SRAX's software-as-

a-service solution Sequire, an investor intelligence and communications solution that enables users to monitor investor behaviour through data held on the platform.

Sequire's proprietary data provides insights to issuers regarding who is investing in their stock and at what volume. The

addition of short interest data provides an extra reference point regarding market trends and the potential direction of travel of the share price.

S3 Partners says that its short interest data provides transparency to all sides of the stock loan market with "the only



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independent and unbiased bid, offer and last rates for securities financing”.

“We are excited to offer a fully integrated user experience to companies on the Sequire platform that allows them to access and utilise S3’s data and insights to better engage with shareholders,” says S3 Partners’ chief revenue officer Palak Patel.

“This collaboration helps to level the playing field for corporate customers by providing them with the same timely and quality information that many of their investors use to express views on the company’s share price,” he adds.

“Understanding short data is an integral

part of understanding what is going on in any company’s stock,” says SRAX founder Christopher Miglino. “This feature is one of the most requested features from our clients.”

### **REGIS-TR partners with Reg-X**

REGIS-TR has partnered with Reg-X to assist market participants in meeting their reporting obligations across major European regulations.

Reg-X is a provider of reporting and compliance solutions in the regulatory space, which includes regulatory reporting solutions, platforms and consulting services. Reg-X’s services cover automated back

reporting, transaction reporting, regulatory oversight (including outsourced reporting monitoring), and regulatory risk management.

Its solutions work in line with major global regulations including the second Markets in Financial Instruments Directive/ Regulation (MiFID II/MiFIR), the European Market Infrastructure Regulation (EMIR), the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR).

REGIS-TR is a trade repository joint venture between Clearstream, a post-trade division of Deutsche Börse Group, and Iberclear, the Spanish CSD, which is part of BME Group.



Our next-generation platform provides end-to-end support for the front-, middle- and back-office processes of the securities finance and collateral value chain.

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Nick Bruce, head of business development for REGIS-TR, comments: “We are delighted to welcome Reg-X to our partnership programme. The different platforms offered by Reg-X share our vision of making our clients’ reporting obligations as seamless and efficient as possible.”

Kalyan Deshpande, founder of Reg-X, says: “Reg-X is excited to be associated with REGIS-TR.

“This partnership will deliver added value and increased efficiency to both our clients and REGIS-TR’s clients to support their compliance journey.”

## State Street connects Collateral+ to DTCC Utility

State Street’s Collateral+ business is now operational with the Depository Trust & Clearing Corporation’s (DTCC) Margin Transit Utility (MTU).

By leveraging MTU, State Street’s Collateral+ business will now be able to more efficiently validate, enrich, settle, report and monitor third-party collateral.

State Street says it will be able to do this while easily connecting to and sharing information with multiple counterparties on behalf of its clients.

MTU has been designed for simplifying the transfer of collateral among market participants. The service helps reduce operational risk by standardising and automating the margin process from the point of agreement through to settlement.

Additionally, State Street says MTU helps eliminate the need of using faxes and emails for processing margin and settlement activity.

According to Staffan Ahlner, global head of Collateral+ for State Street, this functionality is expected to be essential for State Street’s ability to improve operational efficiency and remove unnecessary complexity so that



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overall risk is mitigated and collateral is ultimately released quicker.

Ahlner comments: “We continue to focus on making key investments in all areas of the firm’s collateral optimisation group, and given the recent and continuing market volatility, coupled with the final phases of uncleared margin rules (UMR) for over-the-counter (OTC) derivatives, an increasing number of our clients are looking to replace manual processes with new tools that focus on automation such as DTCC’s MTU.”

“We expect this functionally to be essential for our ability to improve operational efficiency and remove unnecessary

complexity so that overall risk is mitigated and collateral is ultimately released quicker,” adds Ahlner.

## Malaysia’s intra-day short selling restrictions to remain

The Securities Commission Malaysia (SC) and Bursa Malaysia Berhad will extend the temporary suspension of intra-day short selling (IDSS) until the end of 2021.

Temporary waivers applicable to short selling by proprietary day traders (PDT) will also be extended for this period.

The Malaysian securities market regulator

and the Malaysian stock exchange indicated in a joint statement that this extension of the short selling ban has been taken in the context of ongoing steps to improve market stability and strengthen the integrity of Malaysia’s capital market.

This will include automated application of an “at-tick” rule to Bursa Malaysia’s trading system, where IDSS and PDT short sales orders will be at the prevailing best selling price or above, along with further enhancements to improve the efficiency and resilience of the Bursa Trade Securities 2 (BTS2) platform.

The temporary ban on short sales was introduced on 24 March 2020 in the face of the

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COVID-19 pandemic. On 22 February 2021, SC and the stock exchange took a decision to extend this suspension until 29 August.

In light of this additional extension, SC and Bursa Malaysia say they will continue to monitor developments affecting the capital market and will take necessary measures to ensure a fair and orderly market.

## Clearstream secures CSDR licence for its German CSD

Deutsche Börse Group's post-trade services provider Clearstream has obtained the Central Securities Depositories Regulation (CSDR) licence for banking services for

Clearstream Banking AG, its German central securities depository (CSD).

The authorisation is effective from 24 August 2021 and represents the final step in achieving full CSDR compliance for all of Clearstream's CSDs.

The licence was granted by the German Federal Financial Supervisory Authority, BaFin, pursuant to Article 54 of CSDR which gives authorisation and designation for companies to provide banking-type ancillary services.

CSDR was initiated with the goal to make markets more stable, transparent and

efficient by regulating securities settlement and settlement infrastructures across the EU.

The first phase of CSDR entered into force in 2014. Industry implementation of its CSD-specific measures is ongoing.

Clearstream's German CSD, international CSD (ICSD, Clearstream Banking S.A.) and Luxembourg CSD (LuxCSD S.A.) already hold licences in accordance with Article 16 of CSDR.

Article 16 of CSDR requires that any legal entity that falls within the definition of a CSD shall obtain an authorisation from the competent authority of the Member State where it is established before commencing activities.

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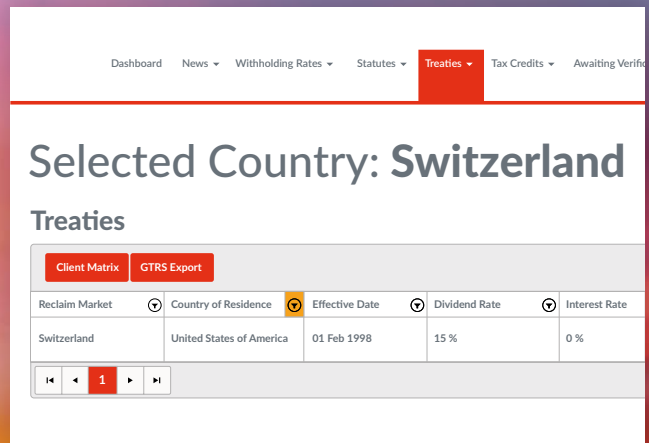
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## Selected Country: Switzerland

### Treaties

Client Matrix GTRS Export

Reclaim Market	Country of Residence	Effective Date	Dividend Rate	Interest Rate
Switzerland	United States of America	01 Feb 1998	15 %	0 %

« 1 »

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## TOP 6 WAYS TO ENSURE SUCCESSFUL FAILS PREVENTION AND AVOID CSDR PENALTIES

The upcoming Central Securities Depositories Regulation's (CSDR) Settlement Discipline Regime (SDR) will impose new measures to prevent settlement failure such as cash penalties for failing and/or late matching trades, and mandatory buy-ins. Given these new, potentially large, impacts of a failed trade – the time is now to maximize your current investments in Institutional Trade Processing's suite of services and to focus efforts on the prevention of failure.

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**10.7M+**

SSIs



**1,800+**

Investment Managers



**1,300+**

Brokers

#### ALERT GCD



**9**

Global Custodians Live



**3**

Regional Custodians & Trust Banks Live



**54%**

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**0%**

Buy-side firms have driven their SSI related fails down to almost 0% by using GCD\*

*\*A Roadmap to SSI Automation: How an SSI Utility Benefits All Participants*



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**5** Prevent penalties under CSDR through centralized trade exception management with DTCC Exception Manager, quickly resolving exceptions and reducing delays in settlement.

## DATA & ANALYTICS

**6** Gain a better understanding of who your higher risk counterparties are by leveraging ITP Data Analytics, allowing you to identify potential missed trade affirmations in order to prevent fails.

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### CTM



**165.8M**

Trades Processed in 2020



**95%**

Average Same Day Matching Rate



**1,562**

Investment Managers



**1,239**

Brokers

### DTCC EXCEPTION MANAGER



**28**

Organizations (brokers, prime brokers and custodians) submitting accurate data directly to the platform



**212**

Counterparty Pairings



Community includes investment managers, brokers, custodians, prime brokers, and outsourcers

### ITP DATA ANALYTICS



**100%**

CTM client coverage



**93.54%**

Average same day match agreement for European trades in March 2021



**€ 524B**

Notional delta between what was entered on trade date but not affirmed on trade date in March 2021

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# The power of reinvention

*Bob Currie : Matthew Chessum, abrdn's investment director for securities lending, collateral management and money markets, speaks to Bob Currie about plans to grow the fund manager's lending programme, the fallout from GameStop and its steps to embrace reports : sustainable development objectives*

Standard Life Aberdeen's decision to rebrand as abrdrn in April 2021 raised a few eyebrows across the industry. Chief executive Stephen Bird explained that the new brand builds on the company's heritage and is "modern, dynamic and, most importantly, engaging for all of our client and customer channels".

For those born in the 1960s and '70s, this new branding may be hard on the eye, resembling a predictive text accident as much as an attempt to appeal to younger investors.

But over the years, Aberdeen Asset Management, from its 1980s formation in the eponymous Scottish oil town, through various mergers and acquisitions (M&A) — including its 2017 junction with Standard Life Investments (SLI) — has often been something of a frontrunner, prepared to do things slightly differently.

Its Aberdeen Technology unit trust, for example, was one of the most publicised collective investment vehicles offering economic exposure to the 1990s tech boom.

Around the same time, Aberdeen signed an investment operations outsourcing deal with Cogent, becoming one of the first UK fund managers to outsource middle-and back-office processes to a third-party asset servicing specialist. Many have taken this road subsequently — being 'in house' feels like a departure from the orthodoxy these days — but it was a bold and contrarian move when Aberdeen made this choice in 1997.

This eye on the future — and a willingness to reinvent itself — continues in its product strategy, its investment brand and in many parts of its approach to securities lending and liquidity management.

## Scale with growth

With more than £530 billion in assets under management (AUM) and administration on behalf of investor clients — through organic growth and M&A activity — abrdrn offers scale in the securities finance segment and an international asset gathering capability that continues to feed this hefty securities inventory.

Having had to moderate its growth ambitions for a time, following the Standard Life Investments merger and the huge transition project this engendered, the current focus for the securities lending and liquidity management team, according to Chessum, is on

expanding its securities lending programmes across all fund ranges and mandates.

In the current low yield, low interest rate environment, securities lending is probably more important than it has ever been in terms of its contribution to the performance of abrdrn funds.

This importance is likely to grow as abrdrn extends its product range to offer a wider rack of indexed funds and exchange-traded products — alongside its established expertise in actively-managed funds — where revenue from securities lending will be key to driving performance and expansion.

This step comes in the wake of a period of corporate restructuring following its M&A activity over the past seven or eight years. This has brought on board a range of new funds, not all of which are yet supported within the lending programme.

When Aberdeen acquired Scottish Widows Investment Partnership (SWIP) in 2013, for example, SWIP's securities lending activity was promptly integrated into Aberdeen's lending strategy following the purchase.

In contrast, when SLI purchased Ignis Asset Management from Phoenix Asset Management in 2014, Ignis' lending activity was discontinued when Ignis migrated into SLI.

With much of this post-merger transition work now completed, the lending team now has the opportunity to squeeze more out of this pot of assets. This will include integrating fund ranges that have not previously been migrated into the lending programme.

Two other factors have been particularly important during the first half of 2021 in shaping the focus and approach of the lending programme. One has been the fallout from GameStop and the rise in meme stock trading via retail brokerage platforms. A second has been the regulatory push behind sustainable investment and the requirement that investment processes, including securities lending, repo and collateral management, promote high environmental, social and governance (ESG) standards.

## GameStop debrief

The turmoil created by the GameStop short squeeze caught the industry



by surprise and prompted detailed re-evaluation of the role played by securities lending in financial markets.

This directed the spotlight internally on securities lending and collateral management to a degree not seen since the global financial crisis of 2008, notes Chessum.

abrdn's lending strategy is structured by fund range, utilising discretionary and exclusive programmes to lock in opportunities for fee generation. The approach typically is to hold a small number of positions in large sizes — with controls in place to monitor and mitigate the associated risk across these transactions. "Trading in larger sizes, we are careful about the footprint that we have in the market and the impact that our lending activity may have on pricing and liquidity," says Chessum. "By adding supply, there is inevitably a danger of forcing down the fee and, therefore, being poorly compensated for lending in larger volumes."

The risk impact associated with GameStop was not well understood — and this has triggered a re-evaluation of the risk implications for asset owners lending securities into the market, should similar stress situations develop in the future.

Beneficial owners need to be confident that they can access their loan securities, particularly in conditions of market stress — and if they choose to sell securities that they have placed on loan, they must be clear how long it will take to recall those securities. With implementation of the settlement discipline regime component of the Central Securities Depository Regulation scheduled for February 2022, this will present a risk of being bought in if the borrower's failure to return securities promptly leads to a failed settlement.

The industry is working together to understand the implications of this chain of events, in terms of financial costs (settlement fines, buy-in costs) and potential damage to future lending or trading relationships,

"During H1, we have done a lot of work within the organisation in reviewing the mechanics of securities lending, ensuring that the risks are well managed and explaining the relative benefits and risks of securities lending to senior decision makers," says Chessum. "Traditionally, securities lending has rarely featured on the agenda at fund board level, but fall out from the meme stock turmoil has moved our business towards the front of management priorities."

Specifically, this has provided opportunity to confirm to senior management that securities lending delivers valuable incremental revenue to the investment fund, managed within a tightly-controlled risk framework — based on careful counterparty selection and credit risk assessment, lending against high-quality, well-diversified collateral and, typically, with indemnification extended by the lending agent.

The industry's experience during the recent COVID-19 crisis has illustrated the important work done by the agent lender and tri-party communities in managing efficient lending and collateral management during conditions of market instability, as well, as we have noted, in providing security to lenders through indemnification.

"Although indemnification does provide a final layer of risk defence, offering reassurance to the fund board and group risk management, we reinforce the point that with a well-tested risk management framework in place we should rarely, if ever, need to call on agent indemnification," says Chessum.

## Sustainable investment

Beyond the enduring drive to maximise risk-adjusted return, one that extends beyond the fund management teams to all the supporting functions, the asset management industry is also focused on promoting sustainable investment practices and a commitment to ESG principles expected by investors and a broader public.

At industry and company level, a primary focus for the first half of 2021 has been in adapting to the Sustainable Finance Disclosure Regulation (SFDR). This applies mandatory disclosure obligations for asset managers and other financial market participants, with substantive provisions becoming effective from 10 March 2021.

This regulation was implemented by the European Commission in parallel with the Taxonomy Regulation and Low Carbon Benchmarks Regulation as part of a package of legislation designed to give substance to the Commission's Action Plan on Sustainable Finance.

SFDR requires asset managers, including those managing UCITS and Alternative Investment Fund Managers Directive (AIFMD)-compliant funds, to provide standardised disclosures indicating how ESG factors are integrated into their investment and post-trade processes at an organisational and product level.

This typically applies to fund managers regardless of whether they have a declared ESG focus to their investment policies. The expectation is that buy-side firms and investment advisors provide sustainability-related information on their financial products and assess the impact of their investment process from a sustainability perspective.

This challenge is complicated by the fact that little has been written about securities lending in SFDR and this lack of codified guidance makes it difficult to prepare. It is still unclear on what terms asset managers should be including Article 8 or Article 9 funds (see box below) in their lending programmes — or whether other changes to lending and collateral management practices are needed to meet SFDR requirements.

As the regulation progresses, Chessum says it is important that the focus is not simply on collateral exclusion — which will reduce the range of eligible collateral that lenders are able to accept — but is more about encouraging, and applying pressure to, companies to become greener and more socially responsible.

Like many asset managers, abrdn's approach, working through its lending agents, has been to apply an ESG overlay to its collateral eligibility parameters. For equity collateral, for example, it requires

that equities accepted as collateral should fall within the MSCI ESG Index.

According to Chessum, agent lenders and tri-party agents have an essential role to play in helping asset managers and beneficial owners to fulfil these objectives in the longer term. This screening process requires sophisticated algorithms and collateral optimisers to work efficiently at scale and few buy-side firms have the in-house tools to do this without the support of third-party lending and collateral management specialists.

SFT asked how effectively the agent lender and tri-party communities are fulfilling this role currently.

"The industry is at a crossroads in terms of what we require", responds Chessum. Buy-side and sell-side firms, agent lenders and beneficial owners are looking at each other for leadership and guidance. "It is difficult to establish a clear policy because we are trying to solve a problem, and to meet a regulatory commitment, that currently only exists in outline."

This said, abrdn recognises that there are steps it can be taking in the meantime to ensure that it is compliant with the spirit of sustainable investment.

## Article 8 and Article 9 funds under SFDR

According to the draft regulatory technical standards on the Sustainable Finance Disclosure Regulation, published by the European Supervisory Authorities on 4 February 2021, an Article 8 fund ('Light Green funds') under SFDR is a fund which "promotes environmental or social characteristics" as part of its approach to investment and where the companies in which the investments are made follow good governance processes.

An Article 9 Fund under SFDR is "a fund that has sustainable investment or a reduction in carbon emissions as its objective." An Article 9 fund is required to incorporate good governance into its investment strategy, including assessment of sound management structures, employee relations, remuneration and tax for the underlying investments. It is required to evaluate the fund portfolio against the principle of "do no significant harm" by considering Principal Adverse Sustainable Impact statements (PASIs) and integrating considerations of the minimum social safeguards detailed in the Taxonomy Regulation.

In the draft RTS, an Article 9 fund with a carbon reduction objective must refer to an EU Climate Transition Benchmark or an EU Paris-aligned benchmark.

These draft RTS are intended to supplement SFDR and, if approved, will come into force on 1 January 2022.

“Our approach is guided by the question, ‘What does the investor expect from a sustainability perspective when investing in a fund?’”, says Chessum. “This defines our ESG strategy across the fund transaction lifecycle, embracing investment decisions, securities lending and collateral management, cash management, corporate actions processing and all other relevant functions.”

## Community dialogue

At industry level, the International Securities Lending Association (ISLA) established a beneficial owner working group in early 2021. This was created to give asset owners a stronger voice in defining the future direction of the industry.

In controlling the supply side of the market, beneficial owners have always had a central position in the securities lending value chain. However, this has not always been fully reflected in their opportunities to shape market practice and policy making.

“Financial intermediaries, particularly the agent lending and tri-party community, have done a fine job in representing beneficial owner interests, but it is important that beneficial owners also have a direct voice within ISLA and other industry associations,” says Chessum, who serves as ISLA board member and co-chair of the beneficial owner working group.

This year, representatives from the securities lending community, including buy-side firms, have also had detailed input into the review of the Bank of England’s UK Money Markets Code of Conduct, which guides best practice in unsecured, repo and securities lending markets, as well as adding important provisions around ESG, diversity and inclusion and remote working among other factors. The central bank has also been taking on board the views of the industry through its Securities Lending Committee, which meets quarterly.

In planning ahead, the focus at abrdn is all about expansion of its lending programme, not just in the UK and Europe, but also in the Asia-Pacific and Australia.

Chessum notes that Asia is an important area of focus for the company and, therefore, it is a natural point of focus for the securities lending programme. “Fees have generally been higher in Asia over the past few years, so it is important that we keep a close eye on any

developments with regards to new fund launches, increased AUM and any new markets,” he says. “Making securities lending a core function and part of the “day one” process when a new fund is launched in all regions is an important step towards growing the programme and returns for our investors.”

In terms of agent selection, abrdn continues to focus on best-of-breed and how to draw best value from its programme through discretionary and exclusive lending. As the discipline matures, peer-to-peer lending may also play a more active part in its lending strategy in times ahead.

One focus for improvement from a lender perspective, Chessum notes, is the need for greater pricing transparency and access to near real-time pricing information.

“As a lender, we monitor fees paid to us by the agent, but we only see one side of the trade. We have no sight of the pricing paid by a hedge fund or prime broker, for example, when they borrow those securities.”

Alongside better price benchmarking for the borrower side of the market, there is demand to move market pricing closer to real-time. “For too long, it has been necessary to make lending decisions based on stale data and there is a clear appetite across the market for data vendors and agent lenders to reduce this time lag,” says Chessum. “Few other investment functions beyond securities lending are working with pricing data that can often be up to 48 hours old.”

With economies opening up, the world finding its feet again after COVID-19 and economic growth at levels not seen for 75 years, Chessum finds that business confidence is growing and companies are re-positioning to remain competitive. These events, he believes, offer hope for a period more akin to “business as usual” for securities lending.

“Brexit is behind us, hopefully, and companies are spending reserves built up through the pandemic,” he says. “This growth and spending power provides opportunities for end users to deploy a broad range of strategies, whether long-short, arbitrage or corporate-activity related, with a growing degree of confidence.” This, in turn, drives fees upwards and will increase opportunities for beneficial owners to deliver meaningful incremental returns through their lending strategies.

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# The move to T+1

*Kenneth E. Bentsen Jr, president and CEO of the Securities Industry and Financial Markets Association (SIFMA) and CEO of the Global Financial Markets Association, says that next day settlement will improve settlement and capital efficiency well beyond levels achieved under T+2*

As we near the end of our analysis of the work needed to get to T+1 settlement, we have gained a clear idea of the changes removing 24 hours from the settlement cycle will require. These include global settlements, documentation impacts, corporate actions, securities issuance, and impacts on coordination for mutual fund portfolio securities and investor shares.

As with the move to T+2, we are facilitating broad industry collaboration and reviewing all the issues through a series of industry engagement and workshops. It is no surprise that some areas will require fundamental changes. These include allocations, affirmation and disaffirmation processes, clearing house process timelines, and securities lending.

Other areas that will require significant change include prime brokerage, delivery of investor documentation, foreign currency exchange (FX), global movement of securities and currency, batch cycle timing, and exchange-traded fund (ETF) creation and redemption. It is also imperative to identify the reasons behind settlement errors and fails, and ensure that the error and fail rates do not increase under a newly compressed timeline.

We have discovered that some of the issues involved in shortening the settlement cycle will need fundamental behavioural, technological and regulatory changes, and industry coordination, socialisation and planning will lead us to success. We outlined these in a recent letter to the US Securities and Exchange Commission (SEC).

By the end of September – just weeks from now – we expect to finish the analysis phase and enter the next phase: developing the plan outlining the necessary steps and timeframes for moving the industry to T+1. This will include an industry transition communication plan, a transition time frame, and appropriate planning and testing. The transition will require behavioural changes and technological changes, and many of these changes will need to be supported by regulatory changes. For example, SEC Rule 15c6-1, relating to settlement cycles, and Financial Industry Regulatory

Authority (FINRA) Rule 11320(b), relating to dates of delivery, will need to be amended.

There are those who ask, “why not move to T+0 instead?” As part of our analysis, we have also reviewed the issues involved with moving to an end of day or T+0 settlement. We have found that same day settlement is more complex than simply removing an additional day from the cycle and would require re-engineering how securities trade and settle.

This re-engineering would necessitate a redesign of areas such as global settlements, FX, margin investing and securities lending to meet regulatory and contractual requirements in less than 12 hours, where today it takes more than 24.

It would potentially require retail investors to pre-fund accounts. It could also potentially create a competitive burden for smaller firms and vendors due to the resources believed necessary to complete a move to T+0. Finally, it could require industry stakeholders – including the Federal Reserve’s payment systems – to maintain services much longer during the day, which could increase the potential for failure.

A requirement that all activity be completed in one business day of perhaps 12 hours or less would also impact the ability to complete non-automated activity, which could expand the rate of trade fails in the system, leading to increased risk.

Recognising these challenges, the industry has and will continue to investigate ways to further shorten settlement times through cost benefit analysis considering risk mitigation, investor benefits and costs, and operational resiliency.

Removing 24 hours from the current settlement cycle comes with obstacles and challenges, though nothing that will prevent the move to T+1. While the industry has a hefty workload ahead, the result will be worth it: a T+1 settlement cycle will mitigate settlement risk well beyond what was achieved under T+2. In addition, a move to T+1 will increase settlement efficiencies and improve the use of capital, especially in periods of high volatility.

*For this original version of this article, visit [www.sifma.org](http://www.sifma.org)*



# A lending hand

*Carmella Haswell reports : Rising from the ashes of the credit crunch, peer-to-peer securities lending has opened doors for investors and borrowers, seemingly providing an attractive alternative to traditional lending mechanisms. Built for the new age, could this be the way forward for securities lending and repo markets?*

Investors are continuously looking for efficient ways to generate return from their assets, typically with as little risk as possible. For larger institutions, one emergent opportunity is through peer-to-peer (P2P) securities lending, offering lenders and borrowers an alternative to traditional sources of intermediated finance.

Beneficial owners, including pension funds, asset managers and insurance companies could reap the rewards of P2P lending. After the financial crisis of 2008, a credit crunch left many at a loss with lending activity from financial institutions declining significantly.

P2P securities lending is a process of lending and borrowing that takes place without the use of traditional bank counterparts. For example, a pension plan will lend its eligible securities directly to a borrower counterparty, often against standardised collateral sets.

One P2P platform in particular has attracted almost 20 members to its hub of beneficial owners in the span of a year. The Global Peer Financing Association (GPFA), which formed in July 2020, encourages the use and development of P2P lending. The Ontario Municipal Employees Retirement System (OMERS) is the most

recent company to join GPFA as a member. Other members include US-based insurance company Pacific Life, Australia's largest superannuation and pension fund Australia Super and Norges Bank Investment Management.

## The highs and lows

In the 283 issue of SFT, Rob Goobie, GPFA chair comments on P2P lending and its popularity among its members. He says: "The importance of this has never been greater, especially amongst beneficial owners who are relatively new to financing and liquidity management." 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".

P2P lending has gained greater momentum recently, because of the lack of capital in the ecosystem to support demands and aspirations of both lenders and borrowers at different ends of the value chain, according to Andrew Dyson, CEO of the International Securities Lending Association (ISLA).

He says: “Lenders in the form of institutional investors have lent their securities often through an intermediary, such as a custodian bank, to a prime broker in the form of an investment bank. Subsequent to the 2007/8 global financial crisis, we have seen regulators impose increased capital charges for all types of risk exposure, which has in some cases reduced the appetite for agents and principal borrowers to intermediate in the securities lending chain as they have done in the past.

“Consequently we have seen larger players at either end of the value chain looking to disintermediate the traditional lending construct and deal directly with one another,” says Dyson.

Jerry May, senior portfolio manager of Ohio Public Employees Retirement System (OPERS) and a founding member of GPFA, tells SFT that those in the securities finance industry are turning their heads to this method of lending because it is a “viable option”.

He says: “It holds promise for limiting volatility in the financing industry and that produces an effect that most industry participants and stakeholders would likely think is a positive benefit. As more peers begin to think through those benefits, it is likely that they may see opportunities for their own plan to participate in some way.”

Other benefits of this lending strategy may include diversifying counterparty exposure, reducing cash financing volatility around month end, and providing the industry with stability in having high-quality counterparties that are actively involved in this sector.

Dyson says there is a greater desire from some predominantly larger lenders to capture more of the lending spread. He adds: “By taking out any revenue share for the lending agent and the implied cost of facing a prudentially regulated entity in the form of a principal borrower, rather than a potentially unregulated fund, the lender can capture all of the available spread on a given transaction.”

As with many lending strategies there are drawbacks and concerns. However, Dyson does not believe there to be major concerns surrounding P2P lending at this moment in time, but admits these platforms do pose questions for lenders.

He tells SFT: “Within a P2P framework the lender faces the ultimate borrower directly, without the cushion of a prudentially regulated entity in the chain and they are unlikely to enjoy the benefit of an indemnity from their agent. The question here is one of risk and of course return.

“Another point that all of the P2P participants have to think about is the provision of operational support that prime brokers and agents have traditionally performed, particularly around safe and efficient settlement and the management of collateral.

“The traditional securities lending operational model typically sees the management of collateral, for example, being handled by the intermediaries in the chain. In a pure P2P perspective, lenders and borrowers will need to agree how this will be done and by whom.”

Peer-to-peer lending operates in the same manner that traditional financing trades do. Once a plan or executive understands the traditional process and uses of securities finance, peer-to-peer financing simply involves adding a different counterparty to the diagram in place of a traditional lender or borrower, according to May.

He says: “The biggest hurdle is recognising the differences between these non-traditional highly-rated counterparties and those that have been used historically. This may mean that each plan’s internal analysis of the uses of cash and economic market dynamics may need to be re-assessed in their impact on this type of counterparty.”

## The aftermath

As interest in P2P lending platforms continue to grow, Dyson discusses whether this could displace traditional sources of finance.

ISLA’s Dyson says: “As these new and novel ways of doing business develop, there is always a possibility that this will eat into the franchises of the existing incumbents. However, due to the additional complexities associated with counterparty assessment and the management of things like collateral, this is a market that will only be attractive to larger institutions, at least in the short term, who may already have well developed credit departments and back office groups covering other products.

“Consequently whilst we do see a very real place for P2P in our markets, our view is that it is likely to be additive to the overall markets rather than dilute the participation of others.”

OPERS’ May adds: “Just as with any new opportunity within the investment industry, participants will investigate the issues surrounding this effort and incorporate the strategy if it is found to be useful to their organisation.”





# US equity specials ride the rollercoaster

*Sam Pierson, director of securities finance at IHS Markit, analyses the boom-bust cycle that continues for US equity specials demand*

It has been a wild ride for US equity special on-loan balances for the year to date. January and June 2021 both saw broad short squeezes in hard-to-borrow US equities, with January having the highest average special balance for any month on record.

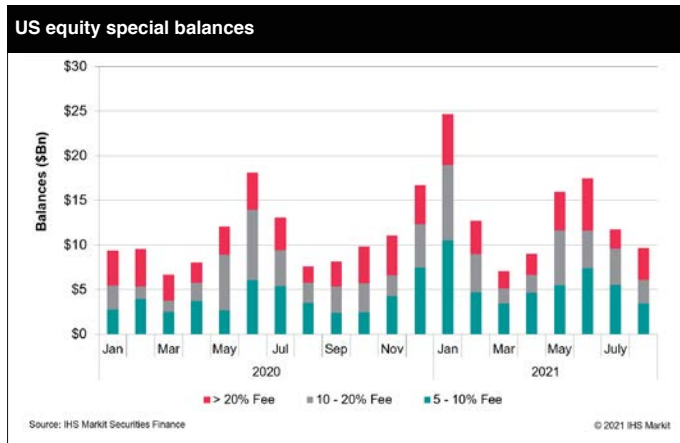
After the late-May and early-June squeeze, specials balances declined when compared with 2020. However, stable specials balances in late-July resulted in 2021 balances pushing back to a year-on-year (YoY)

increase. Month-to-date (MTD) August special balances of US\$9.67bn reflect a 27 per cent YoY increase.

Unless otherwise specified, special balances in this note refer to on-loan balances with fees greater than 500bps annualised.

Breaking specials out by fee range, we see that while overall specials balances have declined during August MTD, the balances

Figure 1



with annualised fees greater than 20 per cent more than doubled month-on-month. Compared with 2020, balances with fees greater than 20 per cent increased by 90 per cent. For balances with fees of 5-10 per cent, fees declined by 2 per cent YoY. While, for balances with fees of 10-20 per cent, fees increased by 19 per cent.

March 2021 had the lowest special balances year-to-date (YTD), with just over \$7bn in balances with fees greater than 5 per cent annualised fee. August only managed a small improvement relative to March, with nearly all growth in specials balances relative to the YTD low point being observed in higher fee ranges.

The largest contributor to US equity special balances in early

August was Coupang Inc., ahead of lockup expiry for pre-IPO investors. Pembina Pipeline Corp, Blink Charging Co. and Cureva Nv. also contributed to the YoY growth in US equity special balances in August.

Special-purpose acquisition companies (SPACs) have also been a key contributor to special demand YTD. In August, firms which went public via SPAC transactions in 2020 or 2021 contributed 25 per cent of average special balances. The largest individual contributors to special balances in August MTD are Churchill Capital IV Corp., Quantumscape Corp. and Skillz Inc.

## Conclusion

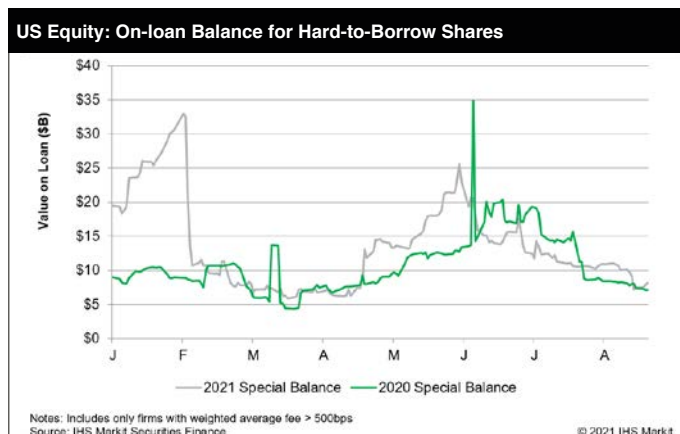
Demand for US equity specials varies from crowded directional short positions, hedges for convertible bond holders and corporate actions.

After building steadily from the 2020 low-point in August to the blowout in January 2021, specials balances pulled back sharply in early February.

The trend for Q2 was similar to the prior year, with June having the greatest specials balances for the quarter.

The Q3 trend is shaping up to be like 2020, in terms of declining from a stellar June. However, the YoY increase in specials, particularly those with the highest fees, augurs well for returns heading into September.

Figure 2



Sam Pierson  
Director  
IHS Markit

## Transcend, State Street and SIX Digital Exchange latest hires

### **EuroCCP hires Robert Wit as liquidity manager.**

Wit, based at EuroCCP's headquarters in Amsterdam, will be responsible for improving control, increasing efficiency and projects on commercial activities such as FX SWAP, repo and securities lending.

Prior to this, Wit worked at SimCorp for a year as a service delivery manager and business analyst. Additionally, he spent 12 years at Robeco in several different roles, beginning as a valuation analyst and leaving as a senior trader and business analyst.

### **State Street appoints James Day to head of securities finance at its London office.**

Prior to his promotion, Day was the global head of securities finance product development at the financial services company.

In a career spanning more than 30 years, Day worked for BNY Mellon as managing director, securities finance for EMEA for five years, prior to his time at State Street.

He was also an executive director at UBS for two years and head of equity execution at Barclays Capital during his 12 years with the organisation.

### **Transcend appoints Steve Vena as business specialist.**

Based in New York, Vena will be responsible for expanding Transcend's business and



### **Beard becomes one of several hires at Kaizen Reporting**

Kaizen Reporting has appointed Gavin Beard, former Standard Chartered FMO regulator lead, to client relationship manager at its London headquarters.

Beard joins Kaizen with more than 30 years of banking experience in markets operations, operational risk and control assurance roles.

He spent seven years at HSBC, where he began as the EMEA head of operations control, leading a number of teams managing risk and control self-assessment, balance sheet substantiation, anti-money laundering post-trade surveillance, client

money segregation, sanction screening and management information reporting.

Beard also worked as a consultant in first and second line of defence roles at NatWest Markets, SMBCE and SMBC Nikko Capital Markets. Prior to this, he worked at Deutsche Bank, where he ran their emerging markets middle-office and emerging markets operations team.

Among the other announced hires are sales and onboarding specialist Dawn Richards, paralegal Angharad Bryant, software engineer Alfonso Lluch and data analyst Ramanan Thiyagalingam.



product strategy to solve complex operational challenges at financial institutions.

In a career spanning more than 30 years, Vena has leveraged his operational background to lead global capital markets transformations at both HSBC and Jefferies. He has also led global teams at firms including Lehman Brothers, Deutsche Bank and Millennium Partners.

Additionally, Vena has played major roles in industry initiatives, such as International Swaps and Derivatives Association credit derivatives working group.

Vena says: "Transcend's technology achieves straight-through processing, from collateral optimisation to booking automation, reducing manual effort in a very controlled and scalable way from the front- to back-office. I look forward to contributing to further product development and helping more clients as they adopt our solutions."

Bimal Kadikar, CEO of Transcend, says: "Steve's vast global capital markets knowledge will help us meet our clients' objectives for end-to-end efficiency and control, while supporting Transcend's expansion both globally and into new markets."

### **Ben Meaden has been promoted to head of securities finance at Aviva Investors.**

His appointment follows Mick Chadwick's departure from the company, as part of internal restructuring, having led the securities finance team for 15 years.

Meaden has worked at Aviva since 2003, having served as head of securities finance trading for the past two years and, prior to this, for 15 years as a securities finance trader handling securities lending, repo and funding transactions.

In June, Aviva created a new liquidity and securities finance business unit, which is led by Caroline Hedges, the company's global head of liquidity and securities finance. Hedges reports to Colin Purdie, Aviva's chief investment officer for liquid markets.

### **SIX Digital Exchange (SDX) has appointed David Newns as CEO, replacing Tim Grant.**

Subject to Swiss Financial Market Supervisory Authority approval, Newns will begin his tenure on 6 October 2021.

Newns has previous experience in the digital exchange sector working on mission critical infrastructure, service-driven application development for banks and digital assets, and an understanding of how nascent markets are created and brought to maturity.

SDX is in the process of testing and scaling, and is due to be launched subject to regulatory approvals. Technical development on the core platform has already been completed.

Commenting on his appointment Newns says: "I believe that this is the perfect moment for our industry to redefine how it engages with its clients and stakeholders and, in turn, empowers them to serve their clients. SDX is in the ideal industry sweet-spot to achieve this and I am looking forward to driving its further growth and development."

Thomas Zeeb, chairman of SDX and member of the executive board, comments: "I thoroughly enjoyed working with Tim and his team at SDX and now look forward to working with David as we take SDX into the next stage of maturity and development."

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## State Street appoints Edwards as APAC collateral head

State Street has appointed Sam Edwards as head of collateral management for Asia Pacific (APAC), to lead the build-out of Collateral+ in the region.

Based in Hong Kong, Edwards will support State Street's regional clients by overseeing developments in collateral strategy.

He will report globally to Staffan Ahlner, global head of collateral management, and regionally to Michele Hardeman, head of global markets at APAC.

Edwards joins State Street from Credit Suisse, where he established secured financing in APAC and equity financing capabilities in EMEA during his 12 years with the firm. His most recent role was head of Credit Suisse's APAC central collateral desk.

Hardeman says: "With State Street's collateral management solution, Collateral+, clients

will have a stronger understanding of their regulatory obligations through our assessment of their portfolios and prepare them to meet new requirements. With this integrated, data-driven platform, combined with Sam's local knowledge and expertise, we are positioned to support our APAC clients in improving operational efficiency, achieving UMR compliance and managing risk and liquidity by streamlining their collateral programme."

Edwards adds: "The objective for our clients is not only to meet the immediate needs of margin segregation and management, but also to deliver greater ongoing returns in a challenging marketplace".

"To that end, we are partnering with them to enable enhanced inventory, liquidity and risk management to drive financial resource efficiency and overall returns. I look forward to engaging and working with our clients across APAC."

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### The power of reinvention

Matthew Chessum on lending growth, sustainability and fallout from GameStop



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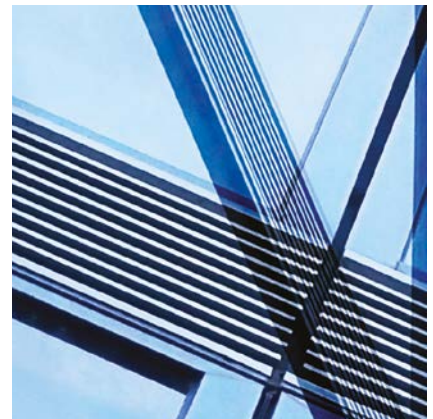
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# We clear the path

OCC has the largest centrally-cleared stock loan offering in the world with approximately \$80 billion in cleared loan balances. Over the last 25 years, OCC has built an innovative and unique U.S. program for securities lending transactions where OCC steps in as the counterparty (with a two percent risk weight) and guarantees the return of stock or collateral. We continue to enhance and expand access to our stock loan program in order to offer clearing solutions and capital efficiencies for our members and the entire securities finance industry.



*As the world's largest equity derivatives clearinghouse, OCC is committed to providing market participants with high quality and efficient clearing, settlement and risk management services. As a Systemically Important Financial Market Utility, we work to enhance our resiliency in order to reduce systemic risk, increase market transparency, and provide capital and collateral efficiencies for the U.S. capital markets.*

**OCC**

**THE FOUNDATION  
FOR SECURE  
MARKETS**



# 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.

A promotional banner for Consolo. On the left is the Consolo logo, a white diamond-shaped grid of squares on a dark blue background. To the right, the text "Empowering Change in Securities Finance" is written in white. Below this, the website "Consolold.co.uk" is displayed in white on a dark blue background. On the far right, there is a stylized lightbulb icon with a glowing yellow light inside, set against a dark blue background with a geometric pattern.





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