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A centralised view of collateral

Centralising from execution to post-trade must be the focus, says EquiLend's Mike Norwood

Deutsche Börse launches CSDR reference data set

Deutsche Börse's Market Data + Services business is launching a data offering which allows clients to identify in-scope instruments and relevant reference data.

The announcement comes ahead of the new settlement discipline rules set to be introduced by the European Central Securities Depositories Regulation (CSDR), which will introduce cash penalties and mandatory buy-ins for securities transactions which fail to settle on the intended settlement date and beyond.

Deutsche Börse will offer data packages that support the validation of financial instruments which are subject to CSDR. These data packages allow customers to identify relevant instruments and manage the new regulatory requirements effectively, according to Deutsche Börse.

The data packages also help to manage risks and prioritise settlement fails, reconcile cash penalties and prepare for buy-ins. It is designed for all market participants that are active in trading and settlement of securities which settle within a European CSD.

Alireza Dorfard, head of Market Data + Services, says: "Accurate reference data is key when it comes to managing regulatory obligations and the associated risks. With our new data offering, we are taking another important step in our efforts to support both the financial industry and the European regulatory agenda."

Deutsche Börse is planning to roll out further data packages containing additional instrument data needed to manage buy-ins as well as analytical data about executed auctions of Deutsche Börse's buy-in agent Eurex STS.

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Securities lending associations working group unveils formal name

The International Securities Lending Association (ISLA) has announced that the collaborative global group formed by five securities lending industry associations will be formally known as the Global Alliance of Securities Lending Associations (GASLA).

The working group, formed in September, comprises of ISLA, the Canadian Securities Lending Association, the Pan Asia Securities Lending Association, the Risk Management Association, and the South African Securities Lending Association.

GASLA will act as a single voice promoting transparency and standardisation across global securities lending markets, including the integration of ESG principles and a digital evolution that facilitates efficient, liquid and sustainable capital markets.

The working group will collaborate with stakeholders, regulators, policymakers and standard-setting entities across all regions.

In addition to its formal name announcement, GASLA has published a best practice voting guide concerning voting and shareholder engagement.

The guide aims to help lenders that wish to align their securities lending programmes with wider ESG factors, particularly around the governance (the “G” of ESG) areas of voting, stewardship and active ownership.

In the guide, GASLA states it supports active engagement through industry standard legal documentation and effective safeguards, such as borrowers warranties and the right of a lender to terminate a loan.

Provable Markets receives approval of FINRA broker-dealer application

Provable Markets announces its acceptance to become a member broker-dealer of the Financial Industry Regulatory Authority (FINRA).

The New York-based broker-dealer will be able to operate its alternative trading system (ATS), Aurora. The firm has filed Form ATS with the Securities and Exchange Commission, which is the last regulatory approval required before going live.

Aurora seeks to set a higher standard for managing, trading, and optimising collateral by offering subscribers access to digital workflows to engage in securities lending, option block trades, and security-based swaps.

It leverages Provable Markets’ role as an Approved SFT Submitter to the Depository Trust & Clearing Corporation’s (DTCC) Securities Finance Transaction (SFT) Service, providing National Securities Clearing Corporation (NSCC) members and sponsored firms the sole marketplace-driven access point to central clearing.

The newly-built platform is designed to offer flexible levels of integration and interoperability for various user needs while maximising efficiency for all.

Speaking on the announcement, Matt Cohen, co-founder and CEO of Provable Markets, says: “This was truly a team effort on all sides, and we thank FINRA for their diligence and constructive interaction during this process. We believe that thoughtful solutions for the markets and regulation are not diametrically opposed, and we are excited about this development’s impact on

our ability to provide meaningful and lasting improvements for all participants.”

OCC’s securities lending average daily loan value rises by 73% YoY

OCC’s securities lending central counterparty activity increased by 52.3 per cent in new loans compared to October 2020, with 165,581 transactions last month.

The average daily loan value at OCC in October 2021 was US$130,863,324,895, a 73.4 per cent increase compared to October 2020.

The equity derivatives clearing organisation reveals its total cleared contract volume experienced the fifth highest month on record and the highest October ever, up 29.7 per cent compared to October 2020.

Additionally, the average daily cleared contract volume through October 2021 was 38,893,113, up 34.8 per cent YoY.

The total futures cleared contract volume was 4,470,625, a 33.7 per cent increase YoY. OCC’s year-to-date average daily cleared futures volume is 230,718 contracts.

Meanwhile, OCC’s total exchange-listed options cleared contract volume was 821,102,002, a 29.6 per cent increase YoY. Equity options cleared contract volume was 777,425,367 contracts, up 30 per cent compared to October 2020.

EquiLend enhances Premium Pulse transaction data service

EquiLend has extended real-time trading data offered on its Premium Pulse service.

The New York-based securities lending trading, post-trade and market data specialist indicates that Premium Pulse now offers access to the largest source of live securities lending data, enhanced with transaction details from its NGT platform.

Premium Pulse trade data is updated as soon as trades are executed, on a 24-hour basis, providing trade information including security name, ticket size, rate level and type of collateral.

In expanding Premium Pulse, EquiLend indicates that it recognises the need for the most up-to-date trade data and is delivering

greater transparency and access to a wider body of quantitative transaction data to drive trading decisions.

This service can be accessed through web-based user interfaces of its NGT electronic execution platform, its DataLend and Pulse data and analytics services, or through a new application programme interface (API).

According to EquiLend, Premium Pulse now offers real-time information on more than 75,000 trades per day, bridging global equities (including stocks, exchange-traded funds, American Depositary Receipts and preferred shares) and global fixed income (including government debt, corporate bonds and convertible bonds). This data service distinguishes between lender-to-broker and broker-to-broker transactions.

Global securities lending revenue up 34% YoY for October

The global securities lending revenue was up 34 per cent in October YoY to US$821 million, according to DataLend.

The market data firm reports a four per cent rise in revenue across the global securities finance industry, which generated US$821 million in revenue for lenders in October 2021, in comparison to US$790 million in September 2021.

Global broker-to-broker activity, where broker-dealers lend and borrow securities from each other, totalled an additional US$225 million in revenue in October, a 20 per cent increase from the previous year.

According to DataLend, the increase in lender-to-broker revenue over 2020 was driven by an increase in fees in Asia and balances in North America. The average fee for Asian equities increased by over 27 basis points (bps) to 105 bps, while the average on-loan value in North America increased by 23 per cent compared to the prior year.

For fixed-income securities, global revenue generated from government debt saw a 31 per cent increase YoY, while corporate debt increased 81 per cent. These were mainly driven by rises in average on-loan value of 21 per cent and 47 per cent, respectively. The average fee for corporate debt also increased by 24 per cent, from 17 bps in October 2020 to 21 bps last month.

The top five lending revenue-generating securities in October were Robinhood Markets (HOOD), VMware (VMW), Ginkgo Bioworks (DNA), Faraday Future (FFIE) and Microvast (MVST). The five securities in total generated over US$105 million in revenue in the month.

ISLA publishes French version of 'Framing securities lending for the sustainability era'

The International Securities Lending Association (ISLA) has published its white paper titled 'Framing securities lending for the sustainability era' in French.

The white paper comes during the lead up to COP26 and to support the upcoming ISLA-led panel session 'Financial Markets of the Future: Framing Securities Lending for the Sustainability Era', which is taking place in Paris at the World Pensions Council's G20 Pensions Dialogue & ESG Summit on 28 October.

Produced jointly by ISLA and law firm Allen & Overy, the paper looks at the role of lending in the transition to a sustainable economy and how ISLA is supporting that process.

In line with the aims of the Capital Markets Union (CMU), securities lending helps create a more resilient economy, which in turn will help the EU deliver on its objectives under the European Green Deal, according to the publication.

The white paper discussed whether practices within capital markets were generating undue short-term pressure in the real economy and suggested, along with the European Securities and Markets Authority (ESMA) and the Federal Reserve Bank of New York, that this was not the case.

It found that short sales do not, in the long term, affect market declines, and that there was no solid evidence to suggest a causal connection between securities lending and undue short-term market pressures.

In supporting the transition to a sustainable economy, ISLA will lead work-streams on the following five-step action plan below, where it will:

- Work with members and industry stakeholders towards the development of a best practice standard on creating a common understanding of ESG objectives
- Work with the membership to update current best practices for recalling securities and to create industry standards around voting in line with good governance principles
- Adapt current best practices that aid transparency to regulators around shareholder disclosure and identification, keeping in line with the regulatory requirements of SRD II
- Work with members and industry stakeholder groups to engage in a feasibility study on how current market practice could be optimised to increase transparency
- Work with its Collateral Management Steering Group, with a mandate from ISLA's Beneficial Owner Steering Group, to develop high level standards for collateral selection and around the approach to cash re-investment to align with the lender's ESG objectives

Upon conclusion, ISLA's white paper reads: "At ISLA we strongly believe that securities lending has an important role to play in both meeting individual market participants' ESG objectives and in aiding the wider transition of the economy towards Paris-aligned and other sustainable goals. ISLA believes that the industry can support the growing concerns of asset owners around sustainability and coevolve, by helping them achieve liquidity and growth in these markets."

GLMX expands into Canada with recent OSC approval

GLMX Technologies has been approved to operate in Alberta, British Columbia, Ontario, Quebec, and Nova Scotia.

The approval by the Ontario Securities Commission comes under an exemption from marketplace rules granted by regulators in the listed jurisdictions. The exemption — which is based on GLMX's existing regulatory structure as an alternative trading system in the US, along with various other terms and conditions — enables users of GLMX with addresses in those jurisdictions to negotiate securities financing transactions.

Glenn Havlicek, CEO and co-founder at GLMX, says: "GLMX has experienced exceptional interest from our clients in Canada. We are pleased to be able to provide GLMX technology which will enhance efficiency and transparency in the critical Canadian securities finance market."

Pirum supports clients with MiFID II collateral reporting requirements

Pirum has announced enhancements to its collateral management service, Collateral Connect, by supporting its clients with their MiFID II collateral reporting requirements.

Clients are now able to report at scale, in the format and frequency required by regulators, to all their counterparts.

Under article 63 of the MiFID II regulation, investment firms that hold client financial instruments or client funds are required to send, at least on a quarterly basis, a statement (in a durable medium) of those financial instruments or funds to each client.

Robert Frost, global head of product at Pirum, says: "We continue to work closely with our clients to understand the evolving regulatory requirements that they are required to meet. We always look to leverage our extensive data and connectivity, and we have a track record of supporting our clients with highly automated solutions."

A centralised view of collateral

The ability to interconnect trading platforms and to drive centralisation of trade input data, execution and post-trade management is a must, says Mike Norwood, director, global trading product owner, EquiLend

The long-term vision for securities finance is of a sector equipped with centralised systems which support firms in making, managing, and settling collateral, and the trades which they underpin, efficiently and cost-effectively. Weighty regulation has both aided this vision and, in the short term, slowed the forward march of progress, but the future is closer than firms can imagine.

Monumental change

Outside of securities finance the decade got off to a turbulent start, but within the sector waves were also being made with the introduction of the Securities Financing Transactions Regulation (SFTR) and the impending, much delayed, Central Securities Depositories Regulation (CSDR). Uncleared Margin Rules (UMR) under the European Market Infrastructure Regulation (EMIR), while initially aimed at regulating the derivative space, also placed pressure on the buy-side in securities lending. The requirement to post specific classes of collateral has liquidity, resource and funding implications for firms. The swathe of such regulations aims to unify the sector and foster collaboration and centralisation of resources for greater efficiency.

The vision of dual macro and micro reporting made real by SFTR presents data collection and interpretation challenges for regulators. Staff at impacted firms are acutely aware of the importance of day-to-day reporting and are doubly aware of the largely manual management of new and existing trades which has traditionally come with that. Requirements such as those of back-loading trades to fulfil regulatory back reporting while day-to-day trade activity is ongoing creates a polarising scenario. Fulfilling one requirement pulls necessary focus from the other, contributing to point-of-trade fails and further backlogs in reporting. STP technology works to mitigate inaccuracy and subsequent latency at point of trade, additionally facilitating post-trade management.

UMR adds an additional pressure across securities lending desks not only in the increased volume of margin calls but where High Quality Liquid Assets (HQLA) are required to fulfil margin calls, yet inventory information may be unavailable quickly. In the new regime, under-reporting of collateral has been noted for a number of reasons, not limited to illiquid collateral types, reuse of collateral and long-tail settlement dates impacting delivery of collateral and its reporting. Greater matching at point of trade through readily available technology can offer a real-time resolution.

Wholesale regulation seeks to simplify processes and timelines for efficiency and transparency. For firms, this means getting ahead of change to avoid penalties, latency and the potential for demoralised staff, overwhelmed by the weight of new workload brought by systematic change. The weight of such significant legislation for market participants will in time change behaviours and, for most firms, such benefits can be achieved through simple upgrades to existing software to immediately deliver benefit.

Centralisation and transparency

Centralisation of trade input data, execution and post-trade management offers many benefits and can mitigate compound latency at several stages in the trade lifecycle. In facing down the challenges of creating greater industry transparency, interconnectedness of trading platforms is a must. EquiLend's proprietary trading tool, NGT, has long offered platform interoperability for clients in seamlessly making, placing, and executing trades, no matter their internal technology capabilities.

Central to the EquiLend vision throughout our 20-year history, products such as EquiLend NGT provide a base from which clients may further enhance their trading capabilities in line with technological advancements newly built into familiar platforms. Recent enhancements to our EquiLend Exposure and Collateral Trading tools further support centralisation and greater control for each market participant.

EquiLend Collateral Trading (CLT) offers a centralised way for funding and financing desks to execute and manage termed trade structures with their counterparties. Each may advertise intent and manage the process of collateral management from negotiation to allocation, centrally. The true benefit of this is realised for firms impacted by UMR, where a centralised view of collateral type and value will benefit a number of business areas. The price discovery screen, True Market View, is a key feature of CLT and uniquely enables clients to access a transparent view of the global basket trading. This facilitates greater price discovery and, when paired with the broad range of basket types available to view, offers a truly transparent view of liquidity, demand, and execution on the platform.

With centralised communication across multiple counterparties also a feature of CLT, parties in a transaction can have a clear view of inventory on both sides of the trade. STP messaging through Shared Trade Tickets now connects NGT trades and each client's collateral activity. This facilitates centralisation and market transparency, moving each counterpart a step toward faster collateralisation of a pending trade.

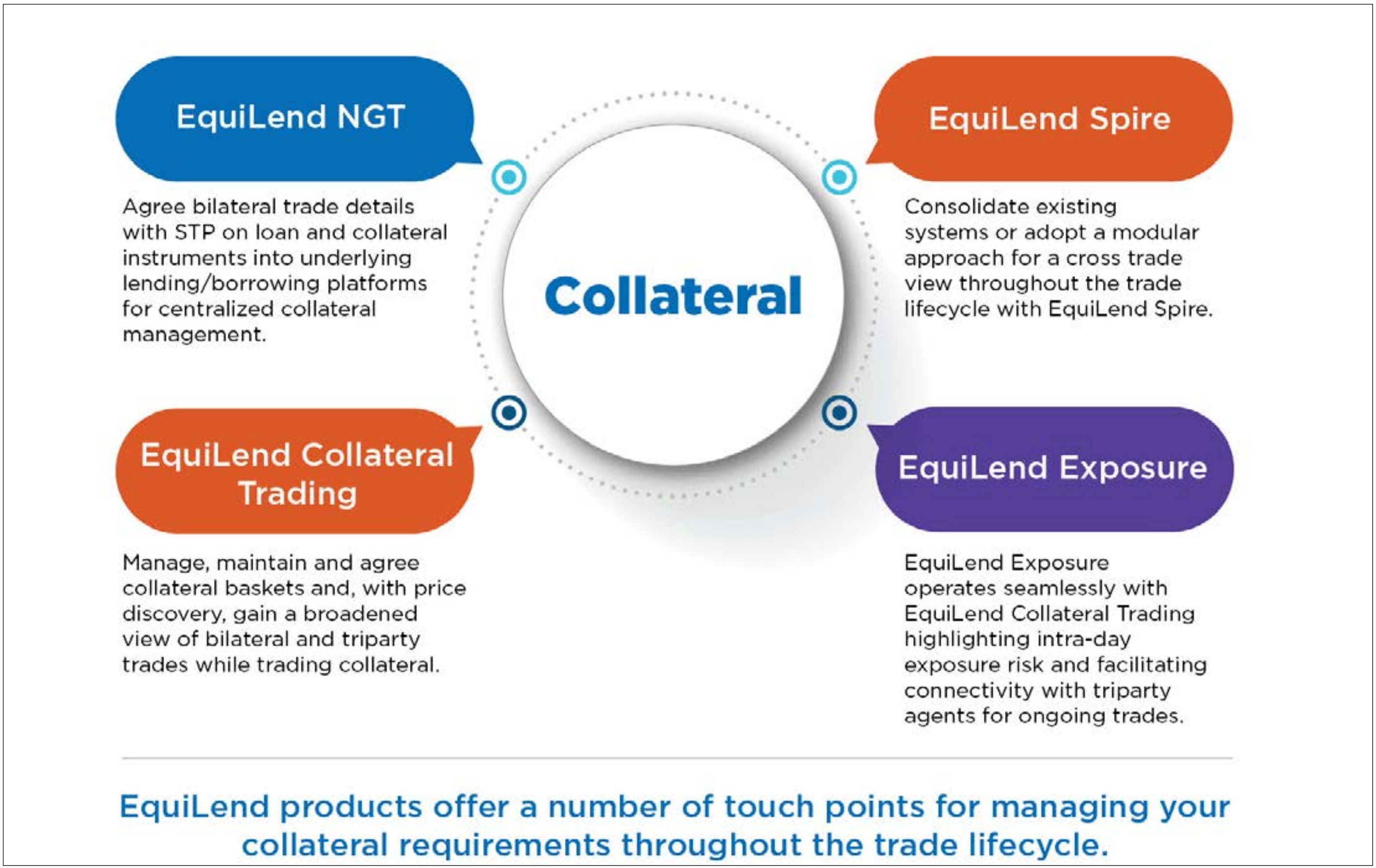
Where EquiLend Collateral Trading offers a broad view of bilateral trades, EquiLend Exposure plays a vital role in highlighting intraday exposure risk through a centralised platform. Enabling connectivity to triparty agents and aiding transparency with ongoing trades, real-time reconciliation reduces settlement latency while increasing the accuracy of the transactional data.

With EquiLend Exposure, on-screen visibility of intraday settlement activity offers clients a sure way to ensure accurate, up-to-date collateral requirement calculations. EquiLend Exposure additionally supports the effectiveness of EquiLend Collateral Trading with real-time receipt of collateral allocations from triparty agents, enhancing the ability to prioritise collateral allocation for seamless settlement. Each of these tools interconnects seamlessly with the other services in the EquiLend ecosystem, each dealing with the market need they address in the most efficient way. True efficiency is not only found in solving the problem but in delivering the solution in the most accessible way.

The future is now

Firms have long had a requirement to simplify trading processes in the pursuit of more efficient trading. They now have a duty to deliver this while additionally generating greater transparency. With trades made every second of the day, preparing for and subsequently adhering to regulation has, and will continue to be, an incredible task for the securities finance industry.

Gaining ground on the granularity of trade data and capitalising on efficiencies through greater centralisation from execution to post trade must be the focus. While regulation has most recently driven these efficiencies, it is now time for firms to enjoy the benefits of the technology. Further adoption of this technology will be the true driver for change.



The modern art of digitisation

ICMA has launched a four-month initiative to develop its Global Master Repurchase Agreement (GMRA) clause library and taxonomy, designed to improve efficiencies in negotiating and managing repo transaction documentation. Carmella Haswell discusses its potential and the drive to standardise and digitise the securities finance industry

In the past year, the introduction of clause library and taxonomy projects has reinforced the vision of standardising and improving industry processes within securities lending markets. In particular, these projects have focused on modernising the management of documentation including repurchase agreement (repo) transaction documentation and securities lending contracts.

Most recently, the International Capital Markets Association (ICMA) launched its Global Master Repurchase Agreement (GMRA) clause library and taxonomy to improve the efficiencies in the process of negotiation and managing repo transaction documentation. The four-month initiative aims to build an industry-wide, foundational clause taxonomy that will support the association's goal in promoting resilient, well-functioning, international and globally coherent cross-border debt securities markets.

ICMA believes increased standardisation and digitisation will drive more accurate data capture and efficient repo trade processing, both within firms and across the market.

Gabriel Callsen, director in ICMA's market practice and regulatory policy team, says: "Digitisation of many aspects of fixed income market activity has accelerated over the last few years. This is true also in the repo market, where it's been driven by regulatory initiatives like reporting under SFTR, the push for greater operational efficiency and of course by the digitisation of processes in the context of working from home.

"When a trade is executed, the details are shared in different shapes and forms between counterparties and market infrastructures. Normalising transaction data from multiple sources and systems comes at a cost, and so does the onboarding of technology solutions." Callsen highlights the Common Domain Model (CDM) project and how it seeks to facilitate interoperability between firms and platforms, reducing the need for manual intervention, automating workflows and laying the foundation for innovation. The project was designed to capture transaction details in a data structure that is consistent across repo and bonds, securities lending and over-the-counter derivatives.

Standardisation

A recent survey by ICMA found that there were no fewer than 20 electronic repo trading solutions and more than 200 applications for collateral management, liquidity monitoring, corporate actions and ancillary activities available. This proliferation produces the potential risk of fragmentation — and standardisation is a requirement for ensuring connectivity between these elements.

Highlighting the importance of standardisation, Callsen says: "Lack of common standards and protocols is a major barrier to the adoption of new technologies and to new ways of automating business processes. Initiatives like the Common Domain Model for repo and bonds, which creates a standard means of representing the trade lifecycle, will not only form the basis of future digitisation and innovation but also create operational efficiencies for market participants.

"Similarly, negotiating and managing repo transaction documentation can benefit greatly from digitisation. Standardisation of the clauses within the Global Master Repurchase Agreement and the creation of a clause library seeks to improve efficiencies and facilitate automation of processes which remained hitherto largely manual."

Standardisation is the process of creating protocols to guide the creation of a product, service or in this case a process, based on a consensus of all the relevant parties within that industry.

Jonathan Avery, senior product manager at LPA, a technology-based capital market solutions firm, says the move to standardise provides only good for the industry. He explains: "Standardisation should make the repo market more efficient and lead to clients being able to trade with more banks because the legal agreements are easier to negotiate. This, in turn, should provide greater liquidity. There are no drawbacks, especially as it gives market participants more time to manage risk, be compliant, implement regulatory change and respond to challenges such as COVID."

Avery notes that ICMA has made a very positive step forward with this decision, and such standardisation should reduce risk and improve pricing for the buy-side and profitability for the sell-side.

Reinforcing this point, Martin Walker, head of product, securities finance and collateral management at Broadridge, believes the trend of standardising clause libraries, as done by ICMA, ISDA and ISLA, will be well received by the industry. He adds: "The benefits across all asset classes for general standardisation are broadly the same. Standardisation is one of the main drivers of increasing automation and reducing operational risk. This is particularly so in master agreements."

One of the key challenges regarding standardised master agreements, relates to how firms have negotiated variations to key clauses or added annexes. This in turn has created difficulty in converting master agreement into the data and business rules needed by systems for automation, he explains.

Walker adds: "The process of mapping written agreements to data or business rules is a source of legal risk – sometimes from the simple difficulty of representing agreements in systems – but very often from the mapping process itself, whether people or natural language processing techniques are used. Standard clauses with standard meanings will make the entire process easier.

"The only possible drawback relates to financial innovation. While standardisation is a major aid to automation, an overly restrictive or inflexible model can limit innovation. However this seems to have been one of the factors considered in the design of the clause libraries."

ICMA's decision to standardise and digitise the repo transaction documentation process follows on from the International Securities Lending Association's (ISLA) release of its own clause library and taxonomy in September.

ISLA's project aims to build on Global Master Securities Lending Agreements (GMSLA) preprint forms to improve efficiency and reduce time in drafting, negotiating and executing master trading agreements. Prior to this, the International Swaps and Derivatives Association (ISDA) published its clause library for the ISDA Master Agreement in June 2020, which was aimed at bringing greater consistency in the drafting of clauses when there is no need for customisation.

Speaking to SFT, Michael Huertas, head of financial institutions regulation Europe, at PwC reflects on the digitisation efforts of the three regulators, ICMA, ISDA and ISLA and its potential. He says: "ISLA is fast on the foot of ISDA's digitisation efforts. They've been thinking about the general move by the trade associations to digitise existing documentation suites and use this as an opportunity to also standardise, harmonise and create greater consensus amongst market participants on providing standard-form drafting options for commonly negotiated provisions. The ISDA approach has been very successful, ISLA will follow and I would think that ICMA will also be very successful in doing that for the GMRA."

Industry approval

ICMA aims to upgrade the process in which repo documentation is handled across the industry. Using the clause library to mitigate the legal risk that comes with this current process, ICMA will introduce clauses that will: reduce scope for error and problematic or inconsistent drafting; improve the efficiency of negotiations by allowing lawyers and negotiators to focus on the most substantive and consequential clauses and issues; and allow for greater visibility in meeting business, regulatory and operational requirements.

However, Huertas does not believe it possible to reduce the legal risk in its entirety. He adds: "The aim of the clause library is to get consensus around the clauses that are already added into the specific parts of the documentation. You will never be able to reduce legal risk in a full sense because the law evolves across the various different jurisdictions in which the trading counterparties are based."

He continues to say: "Equally, we anticipate this move will also help a more consistent and accurate reporting of legal agreement data for regulatory reporting purposes. The benefit to ISLA, coming on the coattails of ISDA, is that ISLA and its members are able to apply the lessons learned from ISDA's efforts and adapt these to the securities lending markets' specific needs."

ICMA's clause library will be shaped by the finance industry itself, where firms are able to consult and exchange views on the direction that the intended process of repo documentation is headed. For this reason, PwC's Huertas believes the initiative by ICMA will be well received within the industry. However, LPA's Avery says it will all depend on whether market participants use it. He explains: "To enable the development of technology-enabled contract delivery solutions, ICMA should make the clause library and taxonomy open source and expressly not claim intellectual property rights, but instead expressly encourage anyone (especially technology companies) to use them."

This step towards digitisation gives rise to the question, is this the way forward for an efficient industry? According to Huertas, as long as the technology works and those involved in creating these processes are aware that they're replacing operational risk with technology risk, there is a window of opportunity to minimise this operational risk around manual and paper-based processes.

"However, any digital solution is only as good as the digital hardware and the software behind it, and the ability for systems across various different counterparties to interoperate with one another," Huertus explains. "But if the market can benefit from core solutions that build upon the consensus of the relevant trade associations, then this should speed up market participants' digital transformation and improve compliance while reducing negotiation times."

This ever-changing financial landscape has been altered substantially through the financial crisis of 2007-8, Brexit and now the COVID-19 pandemic. According to Huertas, this demands that ISLA, ICMA and ISDA to a certain degree, should also think about some of the wider-ranging issues affecting master agreement documentation suites. "Those working on the clause library — and the consensus that's formed around that — might want to consider how best to ensure that the documentation works for the new reality of trading relationships post-Brexit."

Uncertainty around SDR implementation looms large

There remains a demand for greater clarity from the market amid continued uncertainty around the implementation of the CSDR settlement discipline regime, according to a panel at the Securities Finance Technology Symposium. Rebecca Delaney reports

There remains a demand for greater clarity from market authorities amid continued uncertainty around the implementation of the Settlement Discipline Regime (SDR) of the Central Securities Depositories Regulation (CSDR), according to a panel at the Securities Finance Technology Symposium, hosted by SFT.

The panel, 'All settled for CSDR', featured Paul Baybutt, director and senior product manager of global middle-office product and securities services at HSBC; Daniel Carpenter, head of regulation at Meritsoft; Matthew Johnson, director of digital platform management and industry relations at DTCC; and Camille McKelvey, head of business development for straight-through processing (STP) at MarketAxess.

It was moderated by Sarah Nicholson, senior partner at Consolo.

Described by HSBC's Baybutt as "the last piece of the jigsaw" in financial regulations designed to improve the safety and efficiency of the settlement infrastructure following the 2008 financial crisis, CSDR's SDR was originally scheduled to go live in 2020, but was subsequently delayed to February 2022 owing to industry concerns

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around elements of the SDR content (particularly relating to mandatory buy-ins) and the COVID-19 pandemic.

Consisting of settlement reporting, penalties and mandatory buy-ins, the settlement discipline regime aims to improve the efficiency and safety of securities settlement, to mitigate settlement risks and to encourage further harmonisation of settlement practice.

Discussing the market's state of readiness, Baybutt identifies the most significant concern to be the introduction of mandatory buy-ins, which is likely to reduce optionality and increase costs for investors, as well as impacting market liquidity.

However, the market is still awaiting the impact analysis of the European Securities and Markets Authority's (ESMA's) consultation on the issues raised by the SDR, particularly concerning liquidity and buy-ins, and the need for a framework that is proportional to the costs of implementation.

Baybutt adds that the European Commission is investigating ways to defer mandatory buy-ins while implementing penalties and failed trade reporting as planned. However, although there is an interest in creating a mechanism that would allow split implementation dates, there is still considerable uncertainty around this proposal and whether it will be approved.

MarketAxess' McKelvey says that this uncertainty is "very challenging" for the market, with many market participants believing that it is unlikely buy-ins will go ahead as scheduled.

There is a general sentiment that fines will still go ahead owing to their potential to improve settlement rates, following similar implementation in the US for failed trades.

She says: "Over the next few months, firms need to focus on getting their ducks in a row to make sure the industry is ready for the assumed implementation of settlement penalties."

McKelvey adds that it will be interesting to see if SDR is re-examined, whether the regulation will be de-coupled and whether fines alone will have a positive enough impact on settlement rates to make mandatory buy-ins redundant.

In a poll held during the panel, only 5 per cent of respondents said they thought the market was ready for full implementation of SDR, while over half indicated they thought only settlement fines will be implemented in February 2022.

When asked about the extent to which their specific firm is ready for CSDR, 21 per cent of poll respondents said they were either completely ready or almost ready with some outstanding actions, while 44 per cent said there is still a considerable amount of work to be done.

Meritsoft's Carpenter notes that an important concern in SDR implementation is with the quality of data. The required data is not always provided by a CSD and must be aggregated in-house across all books of business.

"Exception management is key," remarks DTCC's Johnson, adding that it is fundamentally important for an organisation to quickly identify settlement exceptions and resolve them, as well as determine the root cause of any trade failures which can help prevent fails in the future.

McKelvey adds that, from a securities finance approach, there remains a considerable amount of manual intervention between front and back-office processes in the transaction itself, which requires standardisation of data and inputs.

In addition, firms are considering the accuracy and real-time status of their inventory, while banks and broker-dealers are modelling costs from a volume perspective.

However, the underlying sentiment of the panel was that organisations can currently only do so much to prepare for the go-live date while lacking finalised implementation plans.

Baybutt says that those looking at changing their documentation are taking a minimum approach because they currently do not know if buy-ins will happen, or at least be deferred.

The panel concluded with a poll that indicated 27 per cent of respondents believe CSDR will impact the securities finance business with a significant increase in volume — but the same amount predicted a significant decrease.

This appropriately reflects the deep uncertainties within the market over implementation, and highlights the pressing requirement for greater clarity to allow bodies to fully prepare themselves for the go-live date.


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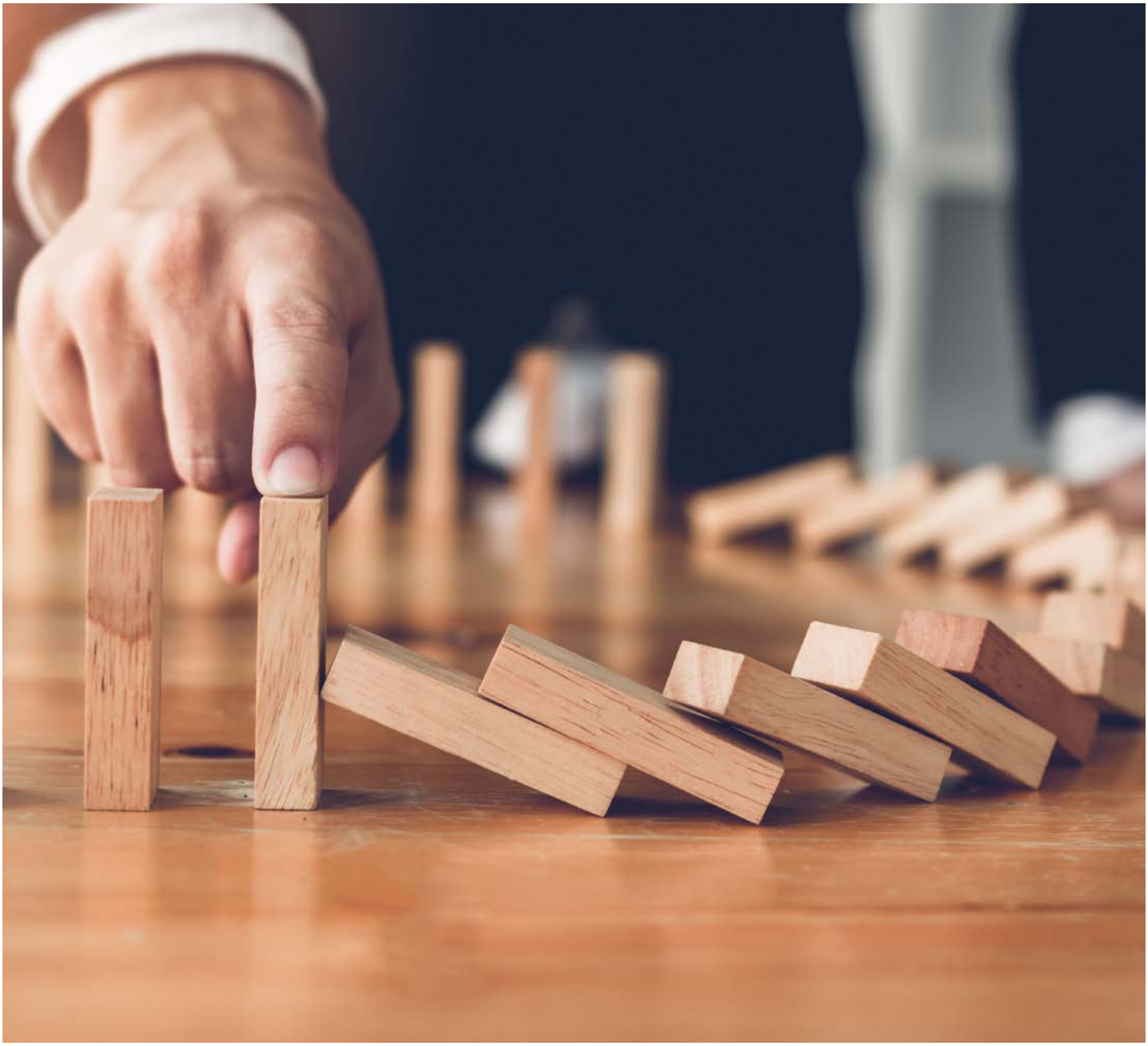

Tokenisation reshaping approaches to collateral optimisation

Tokenisation is going to shift collateral management from being reactive, as it typically is today, to being a lot more proactive, says a panel at the Securities Finance Technology Symposium. Carmella Haswell reports

Tokenisation is going to shift collateral management from being reactive, as it typically is today, to being a lot more proactive, says panellist Gabi Mantle at the Securities Finance Technology Symposium, hosted by SFT.

In a panel moderated by Jonathan Adams, managing principal of securities finance and collateral management at Delta Capita, the subject of collateral management and optimisation was discussed. Several industry experts touched on the involvement and impact of the Central Securities Depositories Regulation (CSDR) in the collateral space.

Panellists included Ted Allen, director of business development, securities finance and collateral at FIS Global; Wassel Dammak, head of collateral solutions strategy at Vermeg; Gabi Mantle, post-trade product specialist at EquiLend; Alan Sheehan, product management director at Adenza; and Martin Walker, head of product management, SFCM at Broadridge.

> *In order to ensure minimal impact of CSDR fines, firms need to understand what their settlement management looks like. It's going to facilitate a much more accurate view of inventory in terms of your projected and settled inventory*

EquiLend's Mantle notes: "CSDR is going to help get to a more proactive stance by forcing improved visibility across future settlement ladders. In order to ensure minimal impact of CSDR fines, firms need to understand what their settlement management looks like. It's going to facilitate a much more accurate view of inventory in terms of your projected and settled inventory."

The panellist continues to say that CSDR will help to bring improved settlement rates, facilitating more accurate views of that inventory. In order for this to work, the industry needs more standardisation. However, it was noted that there is not yet a consensus on what that standardisation looks like.

Pushing the agenda forward, Delta Capita's Adams says: "UMR has been a big driver for collateral transformation, one of the reasons we want to talk about tokenisation is that the demand for collateral for initial margin would be met better if it was easier to do collateral transformation."

In support of this statement, Mantle recognises UMR as one of the drivers within the collateral space in recent times.

She explains: "There is certainly much more demand as a result of UMR, more collateral need means increased collateral transformations, increased trading activity adds pressure to both trading desks and also operational teams. We do need as an industry to be able to mobilise and facilitate that increase in collateral movements and the demand is only expected to increase over the next six, 12, 18 months."

A point of concern, that was highlighted by the panel, circled around the impact buy-side firms now face from UMR Phase 5 and 6. Despite these firms needing to transform collateral, they do not necessarily have the tools to do this.

However, a range of automated platforms and solutions are available to firms to facilitate this.

During the panel's final thoughts on the discussion of collateral management, Broadridge's Walker says: "One of the key things that has come out, particularly when we look at securities lending, is how many of these trends are driving a convergence of trading and collateral management."

The adoption of standardisation and automation is imperative in order to support these changing demands, says Mantle.

And FIS Global's Allen concludes: "Securities finance and collateral management are two sides of the same coin that need to be looked at together."

Markets under surveillance

Whether it is SFTR or SFDR, regulators must be clear about regulatory objectives, the data to be gathered and how they measure that data, says FIS' David Lewis. A lack of certainty runs the risk that regulations will have the opposite effect to what was intended

It is fair to say that we live in a surveillance society. Cameras pop up in our neighbourhoods, shops and offices. Online, every move can be logged and counted to enhance our browsing experience. Even the phones in our pockets listen to our conversations to ensure the results of our next search are focused on what we think we need. There are many points of view regarding the benefits and disadvantages such surveillance can bring, with a common refrain from proponents telling us that if we have done nothing wrong then it should not be a concern. While that may be true, it does require consideration over the definition of what counts as "wrong".

The securities finance and collateral management industry has needed to get used to greater levels of surveillance than it has previously been used to. The Securities Financing Transactions Regulation (SFTR) has been in place for over a year and this week, as we finalise this article, Securities Finance Times was holding its annual Technology Symposium, where the first panel examined the market experience of SFTR to date. The panellists reflected on their experiences as providers to the market through the journey of preparation, launch and ongoing changes that surround SFTR as the European implementation of the Financial Stability Board's Transparency Directive. And what a journey it has been.

The Transparency Directive aims to shine a light into the arena of shadow banking, with its overall objective being to recognise liquidity strains in the marketplace. Identifying those strains will, hopefully, provide an early warning of systemic risk in market liquidity, prompting responses that would then avert the type of financial crisis seen back in 2007-8. This is a valuable outcome, but one that is dependent on measuring the right statistics in a timely and accurate fashion.

Family likeness

Next year sees more tweaks to the SFTR requirements, with the addition of new reconciliation fields, for example. Some would argue that there are higher priority items to address before making the matching process more difficult — and therein lies some of the weaknesses of SFTR. These weaknesses, namely around clarity of definition and certainty of process, have been present from the start and continue to hamper the regulation in meeting its full potential for effective reporting.

The newer sibling to SFTR is the Sustainable Finance Disclosure Regulation (SFDR) and the two should not be confused, despite having more than a passing family resemblance. Both are mandatory, for example, and both require the reporting of compliance against defined standards. SFDR is designed to harmonise standards across existing provisions on disclosures to investors regarding the sustainability credentials of the funds on offer. It is there to impose mandatory reporting on asset managers regarding how aligned their investment strategies are with key environmental, social and governance (ESG) factors.

These are all laudable objectives — as no doubt the 160-plus world leaders who recently flew to Glasgow from around the world to consider how to reduce pollution — would agree. However, the definition of compliance can be problematic. SFDR has an underlying principle of "do no significant harm" which introduces very subjective measurements. To pass this test, "the investment has no significant impact (presumably negative) on all other environmental or social objectives".

The appliance of ESG principles is a very topical subject, inextricably in line with the rising global tide of climate and environmental awareness. So much so that very few investment providers are not rushing into the booming market in ESG-compliant funds, all seeking to invest clients' money in the relatively small number of companies and securities that might pass as ESG-compliant. A previous SFT article highlighted the risks that such concentration poses in terms of asset price bubbles. Those risks for investors remain, and have potentially even grown, attracting the interests of short sellers seeking to benefit when prices realign. However, this analysis is more focused on the measures themselves and the impact on markets and investors of poorly defined requirements.

Greenwashing is a new term, recently entering the financial markets lexicon, and not one fund manager or institution would wish to see used to describe their activities. However, when the measurements lack certainty or clarity, definitions can be adjusted to suit. Few would argue with the overall objective of such regulations, but without clarity the impact is reduced and may even mislead investors into thinking they are doing the right thing regarding sustainable investing, when in practice they are not.

This leads to a fundamental difference between SFTR and SFDR; the latter is explicit in its stated purpose while SFTR might be interpreted as, ironically, a little less transparent. The purpose of SFDR is "to increase market transparency and direct capital towards more sustainable businesses". Some would argue that, however beneficial to the world and its environment, it is not the regulators' place to influence where an investor chooses to invest, but simply to ensure an orderly and fair marketplace. Similar concerns were raised when the European Central Bank (ECB) indicated that its corporate bond buying programme would favour issuers it considers to be more in line with its own ESG objectives, arguably improving the financial positions of corporations it favours over those it considers less attractive.

SFTR is intended to measure the market to avert financial crises. There are multiple spin-off benefits from the way the regulation has been implemented, such as driving improvements in data quality, reconciliations and reducing trade failures, although this has created significant additional costs and overheads of doing business. There is, though, an expectation that the data gathered through SFTR will lead to new regulations from the European Securities and Markets Authority (ESMA) that may seek to exert greater control over securities financing. It is there that the risks increase if the data is measured or interpreted incorrectly.

Whether it is SFTR or SFDR, regulators must be clear about the objectives of a given regulation, how they will define the data to be gathered and how they measure that data. The lack of clarity and certainty runs the risk that regulations will have the opposite effect to that intended. Few would argue that financial markets should not be regulated; we just need to be careful about who sets the standards, defines right and wrong and that the ultimate objective is clear.

Citi, B. Riley Financial and deltaconX AG latest hires and more

BNP Paribas Securities Services has appointed Frédéric Pascal to head of markets and financing services (MFS), effective 1 November.

Pascal will replace Eric Deudon, who held the position of head of markets and financing services for the past five years. Deudon will leave BNP Paribas Securities Services next year to pursue other opportunities, after more than three decades with the bank.

In this role, Pascal will be responsible for driving the growth of MFS products and services, including securities lending, foreign exchange services, triparty collateral management, and financing.

Pascal joined the bank in 1999 and has extensive experience within the financial and securities services industries, having held several senior management positions within the bank's fixed income, structured products and strategy departments.

More recently, Pascal was responsible for BNP Paribas Securities Services' finance and asset liability management and treasury departments.

Recent developments within MFS include the extension of principal lending to wealth managers, the development of reporting application for Automated FX and an investment in HQLA^x, which uses blockchain to facilitate the exchange of collateral.

Mitsubishi UFJ Investor Services (MUFG) has appointed Leonard Buccellato as first vice president, where he will oversee the firm's trade support group.

Based in New York, Buccellato will be a part of the new global securities lending solutions team within Mitsubishi UFJ Trust and Banking Corporation (MUTB). He will report to Anthony Toscano, head of North American global securities lending solutions at MUFG.

Prior to this position, Buccellato spent almost 24 years at Deutsche Bank as vice president and is one of several DB hires to transition over to the Japanese financial services company.

In the span of a year, DB employees including Jim Aris, Thomas Ryan, Christopher Morley, Charlotte Clode and more have followed Tim Smollen, global head of global securities lending solutions, after his own move to MUFG in January 2020.

Commenting on the announcement, Toscano says: "There are few who know the complete operation of a non-custodial securities lending business like Lenny. His career has been instrumental in the building and efficient operation of several agency securities lending businesses. Having worked with Lenny for almost 30 years, he is most certainly our gain as we continue building the premier securities financing business."

B. Riley Financial, formerly B. Riley Securities, has appointed Christopher Gillespie as director of equity finance at its New York office.

Gillespie brings more than 20 years of experience in equity finance to the role, previously working for ED&F Capital Markets as vice president for equity finance, a title he held for four years.

Prior to this, he held similar positions at Vision Financial Markets from 2016 to 2017 and at Maple Solutions from 2000 to 2016.

deltaconX AG has appointed Paul Rennison as director of product management at its London office, where he will report to managing director Thomas Buk.

Rennison brings to deltaconX over 20 years of experience in developing and growing businesses in the financial, energy and regulatory space.

He was previously at FIS for five years as a strategic account director, where he was responsible for managing the commercial relationship with energy and commodity trading companies in Europe.

Prior to this, Rennison spent four years with Trayport as a consultant and as head of business development, where he was responsible for developing and bringing to market Trayport's regulatory and compliance product suite, Trayport Complete.

Earlier in his career, Rennison held consultancy roles with several firms including Thomson Reuters, SEC Compliance and Precise Media.

Speaking on the announcement Rennison says: "I am delighted to join deltaconX, I first met Thomas and Dominik back in 2014 when I was with Trayport. I have always been impressed by their focus on providing solutions and services that support an organisation to navigate and comply with the myriad of reporting regulations. I am looking


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forward to continuing this work and expanding our coverage to meet the ever-changing global set of regulatory requirements."

Andrew Geggus has been appointed as global head of agency lending at BNP Paribas Securities Services.

He steps into this role from his previous position as head of agency lending trading with the Paris-based securities services specialist, which he joined in February 2020.

Prior to this Geggus worked for six years at Northern Trust, latterly as head of APAC securities lending trading.

A spokesperson from BNP Paribas Securities Services told SFT that Geggus will be responsible for strategy for the agency lending team and for driving this business forward.

Graeme Perry has also been appointed as director of trading strategy and relationships in the securities lending division at BNP Paribas Securities Services, focusing on trading initiatives and on further developing external relationships.

Perry was previously head of EMEA agency lending within the organisation, a position that he had held since August 2018.

Citi has announced the hire of Victor Alexiev to global head of D10X institutional clients group (ICG).

Based in Singapore, Alexiev will lead a global team to accelerate the development of new solutions and will continue to work closely with teams across the business to identify new opportunity spaces.

Reporting to Valla Vakili, global head of venture innovation for Citi Ventures, Alexiev will also have a matrix reporting line to Gulru Atak, managing director, ICG business development, innovation.

Alexiev joined Citi in 2018 as the Asia head of D10X, an internal incubation programme that focuses on the exploration of new strategic opportunities for growth and value creation for the bank. His initial remit was focused on Citi's markets and securities services business and, in 2020, it was expanded to include all of Citi Ventures' ICG-relevant programmes and strategic partnerships across Asia.

Prior to this role, Alexiev held several roles including four years as co-managing director of Innovator, four years as co-founder of hacker.works, one year as head of research and development at Nugit, and three years as co-founder and director of research and development for Newstag.

Speaking on the appointment, Vakili says: "Ten years ago, innovation meant rapidly addressing new developments in technology and the shift to an increasingly digital world. Today, we are focusing on long-term growth and helping to address societal and structural disruption, working with partners to discover and build new solutions customised for our hyper-connected world."

Alexiev adds: "With the acceleration of innovation investments across the industry, we are at the brink of a fundamental transformation of financial services in this century. I am privileged to have the opportunity to work with a team to support Citi's journey."

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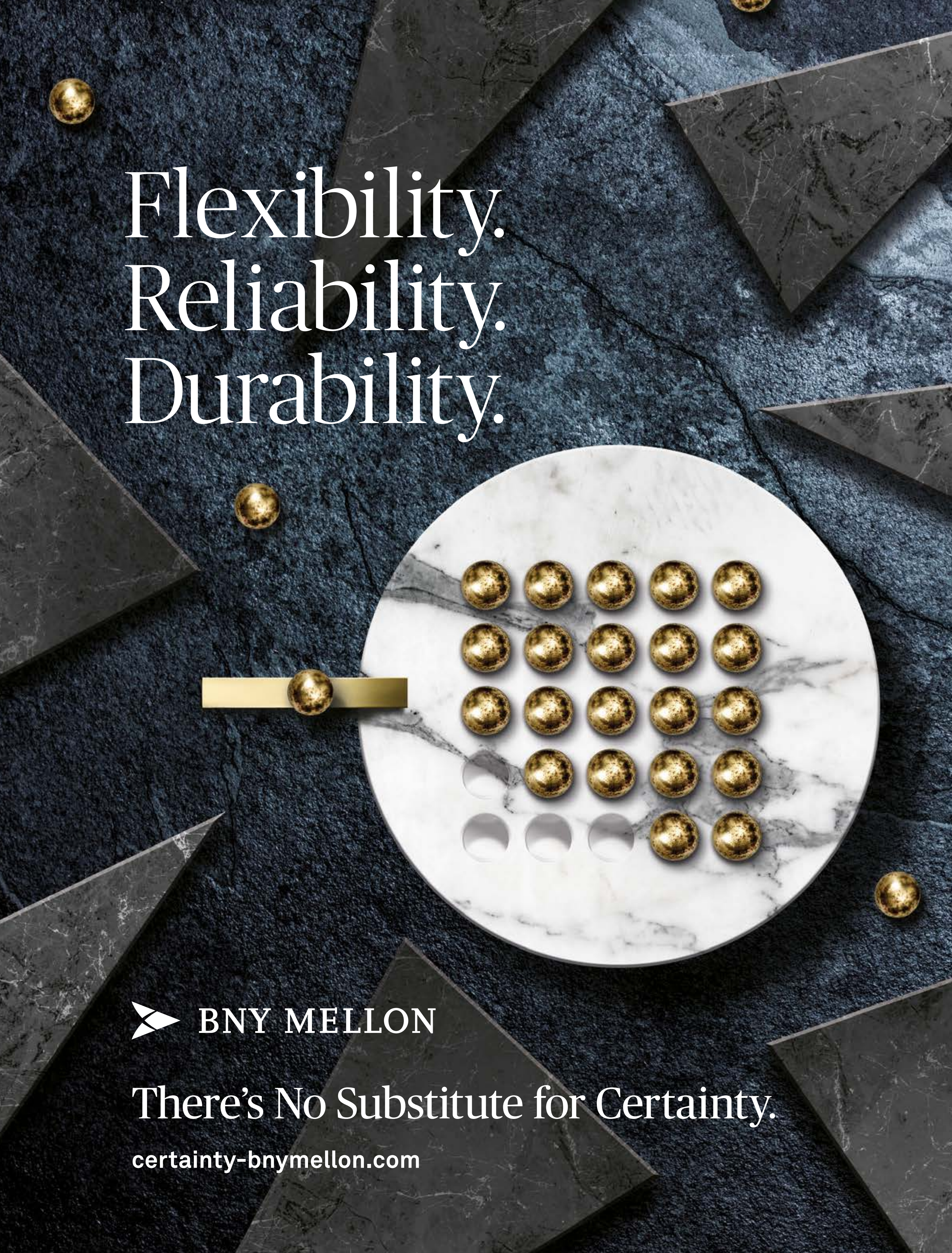
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