securities finance times
The primary source of global securities finance news and analysis
Issue 292 07 December 2021

UMR deadline looms for buy-side

Tooling up for Phase Six

European repo market grows to new high, says ICMA survey

The European Repo and Collateral Council (ERCC) of the International Capital Market Association (ICMA) has published its European repo market semi-annual survey.

The survey calculated the amount of repo business outstanding on 9 June 2021, from the returns of 59 financial institutions.

It revealed the baseline figure for the European market size at a record high of €8,726 billion, a 5.3 per cent rise from €8,285 billion in the December 2020 survey.

The increase was driven by new issuance by a number of governments, which saw an increase in gross and net terms compared to the second half of 2020.

Higher issuance was reflected in increased secondary cash bond market turnover in several countries, feeding into the repo market. Increased repo trading also reflected heavy shortselling in anticipation of possible interest rate rises in the UK and a start to the 'tapering' of quantitative easing (QE) in the eurozone, according to the survey.

Other key findings from the paper included an elevated share of GBP in the survey sample in line with the growth of repos of UK government securities, which now provide the largest share of European repo market collateral.

German government securities played a reduced role as repo collateral, owing to "scarcity" created by asset purchases by the Eurosystem and friction in the official securities lending programme.

Additionally, the share of securities issued by EU institutions being used as collateral stands at just 0.3 per cent of the survey total. However, this is equivalent to 8 percent of the total €259 billion outstanding at the time of the survey, indicating that the repo market has been playing a significant role in the distribution of these securities.

The value of automated dealer-to-client (D2C) trading electronic repo trading continued to grow strongly, reflecting the continued impact of working from home. Triparty repo continues to be crowded out by central bank liquidity, notes the report.

Inside this issue

Point Nine partners with FIS

Point Nine, the Cyprus-based regulatory reporting firm has partnered with US-based listed fortune 500 company FIS.

The collaboration will aid the extension of Point Nine's service, which uses their in-house proprietary technology to provide an in-class solution to customers and regulatory reporting requirements, to FIS' customers, "ensuring accuracy, efficiency, and transparency".

Speaking on the announcement, Andreas Roussos, CEO of Point Nine comments: "We are thrilled to be selected by FIS to power trade and transaction reporting together. The data, which are necessary for firms to ensure timely and accurate reporting, are segregated amongst multiple systems, data formats and third parties.

"By leveraging FIS' trade data and Point Nine's capabilities we are thrilled to present FIS Trade Reporting Manager with Point Nine: aiming to ensure timelines and accuracy in reporting whilst reducing costs and associated risks."

Pirum and Comyno welcome go-live of post integrated trade service

Pirum Systems and Comyno announce go-live with DekaBank on its integrated post-trade service for securities finance.

The partnership sought to develop a fully integrated post-trade solution for clients using the Comyno C-ONE platform. DekaBank is the first client to leverage this connectivity from Pirum's post-trade solutions.

Clients of the service can benefit from a "turnkey solution" that can integrate and leverage connectivity with Pirum to manage post-trade lifecycle events in a fully straight-through processing manner.

Speaking on the announcement, Admir Spahic, COO at Comyno says: "The connectivity to Pirum's post-trade service is completing our current C-ONE offering and further strengthening our partnership with Pirum. The interoperability increases automation and opens doors to new service offerings for our clients."

Karl Wyborn, chief commercial officer at Pirum adds: "Pirum's philosophy has always

Broadridge

Securities Finance and Collateral Management Solutions for Every Firm

- Optimize lending, funding and collateral decisions
- Reduce counterparty and operational risks
- Enable efficient and high-growth operations
- Flexible to firms of all sizes in any location
- Meet regulatory and market requirement

Ready for Next

Communications
Technology
Data and Analytics

Broadridge.com

been to establish as much connectivity as possible with vendors in this space. Our work with Comyno and DekaBank underscores the benefits of this approach for all our clients."

T+1 settlement for US securities by H1 2024

US securities are likely to move to next-day settlement during the first half of 2024, according to a report published today by key industry organisations.

The Depository Trust & Clearing Corporation (DTCC), the Investment Company Institute (ICI) and the Securities Industry and Financial Markets Association (SIFMA) predict that a transition from T+2 to T+1 settlement in H1 2024 will give impacted firms sufficient time to assess the changes required, to conduct testing and for financial supervisors to implement the necessary regulatory amendments.

This will deliver T+1 settlement for US securities slightly less than a quarter of a century after moves to deliver this reduced settlement cycle, led by the Securities Industry Association, were "postponed" in July 2002.

The report by the three participating organisations, Accelerating the US Securities Settlement Cycle to T+1, provides market participants with a roadmap for managing this transition.

The Industry Steering Committee advises that firms should be working with counterparties, custodians, regulators and service vendors to understand the implications relating to deadlines and other timing considerations, system requirements and process changes.

However, it rules out the likelihood of transitioning to T+0 for US securities, which the report says is not feasible in the short term. This, it says, would require an extensive overhaul of current-day clearance and settlement infrastructure, changes to business models and regulatory frameworks, along with a requirement for real-time currency movements to support same-day settlement.

Commenting on these developments, DTCC president and CEO Michael Bodson says: "From our ongoing conversations with market participants and stakeholders, we're in broad agreement on shortening the settlement cycle to T+1 to deliver significant capital efficiencies and risk mitigation benefits to the entire industry.

“We look forward to continuing to work closely with the industry on this important initiative to modernise market structure, as we did during the move from T+3 to T+2 in 2017, to increase the overall efficiency of the securities markets and remove costs and risks.”

Eric J Pan, ICI president and CEO, says: “Shifting to T+1 will strengthen the financial system and offers tangible benefits to investors by reducing their risk exposure and enabling them to more quickly leverage investment opportunities.”

SIFMA president and CEO Kenneth E Bentsen jr says: “As we saw during the industry move from T+3 to T+2, shortening the settlement cycle requires a collaborative effort from market participants across the industry and the development of this report is a key step in making the vision of accelerated settlement a reality.”

In February, the DTCC issued a roadmap detailing plans to transition US securities settlement to T+1.

In April, the industry enlisted Deloitte & Touche LLP to convene working groups with more than 160 organisations across the industry, with an Industry Working Committee overseeing this consultation and report.

Global securities lending revenue up 29% YoY for November

The global securities finance industry generated US$787 million in revenue for lenders in November 2021, according to DataLend. This represented a 29 per cent increase year-on-year.

However, global lending revenue contracted four per cent from the US$821 million generated in October 2021.

Global broker-to-broker activity, where broker-dealers lend and borrow securities from each other, totalled an additional US$229 million in revenue in November 2021, an 18 per cent rise from November 2020.

According to DataLend, the increase in lender-to-broker revenue over 2020 was driven by Asian equities, where the average on-loan balance increased by 14 per cent and the average fee increased by 50 per cent.

North American fixed income also played a role in the YoY increase, with the average on-loan balance and fee increasing by 24 per cent and 23 per cent, respectively.

For the fixed income lending market, global revenue generated from government debt rose 42 per cent YoY, while corporate debt experienced a rise of 104 per cent YoY. This growth was driven by a 47 per cent rise in on-loan values for corporate debt and a 23 per cent increase for government debt.

The top five earners in November 2021 were Bakkt Holdings (BKKT), Robinhood Markets (HOOD), Ginkgo Bioworks (DNA), Microvast (MVST) and Bit Digital (BTBT). The five securities in total generated over US$90 million in revenue in the month.

FCA and BoE publish consultation on reporting requirements under UK EMIR

The Financial Conduct Authority (FCA) and Bank of England (BoE) have launched a joint consultation on changes to reporting requirements, procedures for data quality and registration of Trade Repositories (TRs) under UK EMIR.

The proposals aim to align the UK derivatives reporting framework with international guidance from the Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO) to ensure a more globally consistent data set.

The organisations are proposing measures for mandatory delegated reporting requirements, counterparty notifications and reconciliations processes and the use of XML schemas and global identifiers. These proposals aim to provide clarity to counterparties and TRs, including where there are discrepancies on how certain data fields are reported.

Additionally, the FCA is proposing new rules for TRs on the registration and reconciliation processes, to streamline the process for registration.

The proposals apply to counterparties in scope of the reporting requirements under UK EMIR, TRs registered, or recognised, under UK EMIR and third-party service providers that offer reporting services to counterparties subject to UK reporting under EMIR.

Opening for three months, the consultation will close on 17 February 2022.

State Street Collateral+ introduces analytics and optimisation capabilities

State Street has welcomed pre and post-trade optimisation and margin analytics capabilities to its Collateral+ service, in partnership with Cassini Systems, a provider of pre and post-trade margin and collateral analytics for derivatives market participants.

Collateral+ now offers an integrated, modular approach to optimisation, which addresses collateral efficiency from multiple angles.

The platform integrates collateral and funding impact into the front-office decision strategy ahead of the trades being placed. Collateral+ can optimise margin and carry cost impact, providing a trade route by identifying all the ways to execute and clear the trade and highlighting the lowest cost.

The platform can also offer margin optimisation as a post-trade utility with tools such as novation and compression to lower margin and funding requirements.

In addition to this, State Street says one of the modules can offer collateral inventory optimisation based on clients' collateral funding costs in combination with costs such as clearing fees.

According to the bank, this optimisation highlights the optimal collateral placement and the lowest transaction cost routes.

Through the bank's liquidity offerings, including sponsored repo and the newly launched peer-to-peer repo, clients can leverage incremental cash and optimised securities revenues to effectively execute and grow their investments.

Sam Edwards, head of Collateral+ in APAC for State Street, comments: "As an industry, we have a long-held ambition to deliver collateral impacts and trade opportunities to the decision makers in the front office. Our work with Cassini to develop Collateral+ to provide the intelligence and pre-trade knowledge to the desk is enabling State Street to deliver on this."

HedgeServ partners with AccessFintech

HedgeServ, a US-based global fund administrator, has announced its partnership with UK-based financial technology firm AccessFintech.

The collaboration aims to deliver enhanced controls and efficiency for buy-side clients, through utilising real-time settlement data to offer a "significantly improved" client experience as well as efficiencies in preventing and resolving settlement fails across the counterparty ecosystem.

AccessFintch's data and workflow collaboration network Synergy will help HedgeServ scale and provide clients with insights while enhancing controls and customer service. The Synergy ecosystem will provide HedgeServ with faster access to settlement data, enable quicker and independent exception investigation and resolution and drive the reduction of overall fails.

The solution couples HedgeServ's middle and back-office platforms and data with Synergy's cloud-based data collaboration and standardised operations workflow model, to help buy-side clients reduce operational risk, technology costs and expedite resolution of settlement fails.

Speaking on the partnership, Justin Nadler, president of HedgeServ, says: "Legacy fund administration often forces managers to make decisions based on unreliable and incomplete data. At HedgeServ, we connect managers with their data in ways they normally view, analyse and share information internally with their investors and counterparties. We are excited to partner with AccessFintech in helping our clients to make better data-driven decisions."

Boaz Zilberman, executive vice president, business development of AccessFintech, adds: "Clients are looking for innovative ways to gain sharper insights, simplify their operations and reduce transaction costs. We are excited to partner with HedgeServ as we believe there is a significant opportunity to transform efficiencies and workflow, and clients of both firms will benefit from a much-improved experience and strengthened controls."

EU legislators postpone implementation of CSDR mandatory buy-in provisions

The European Commission has postponed the implementation of Central Securities Depositories Regulation (CSDR) mandatory buy-in provisions following months of speculation, as well as industry requests for the execution date of 1 February 2022 to be pushed back.

The mandatory buy-in provision creates a mandatory obligation for trading parties to execute buy-ins against counterparties who fail to settle their trades within a required period.

Over the course of the year, arguments for delay of the buy-in rules have been strongly voiced by the industry, along with some suggestion that the rules should be made voluntary.

In recent months it has widely been assumed that the postponement would be announced some time this month. This was even hinted at by the European Commission directly, in a Fireside Chat with Jennifer Robertson, acting head of unit for the commission.

At the Association for Financial Markets in Europe (AFME) 14th Annual European Post Trade Virtual Conference last month, Robertson, signalled: “With a legislative proposal currently planned for January, it does not take a great deal of calculation to work out that the idea of the European Commission adopting and negotiating with subsequent publication of any CSDR review is unlikely before 1 February 2022.”

Calls for the mandatory buy-in provisions to be delayed increased during the COVID-19 pandemic, due to a wide concern that the introduction of the buy-in element of the settlement discipline regime (SDR) under CSDR would “present a significant risk to Europe’s recovery from the COVID-19 crisis and will likely disproportionately impact on small and medium-sized enterprises and less liquid securities", an opinion put forward by AFME back in February 2021. AFME was also among the associations calling for the buy-in rule to be a discretionary right of the receiving party, not a mandatory obligation. AFME says it supports a phased approach, and that revised buy-in rules should be deferred to a later date.

In January 2020 and March 2021, an alliance of 14 trade bodies called for a CSDR buy-in delay. This included International Capital Markets Association (ICMA), the International Securities Lending Association (ISLA), AFME, the International Swaps and Derivatives Association and the European Fund and Asset Management Association.

On 30 June 2021, the European Commission released an interim report on the CSDR settlement discipline regime to the European Parliament and European Council. This follows a targeted consultation process which ran from 8 December 2020 to 1 February 2021.

In July 2021, the Joint Trade Associations again wrote to the European Commission and ESMA regarding the implementation schedule for mandatory buy-in rules.

ISLA's Adrian Dale, head of regulation and market practice, outlined that the one-size-fits-all buy-in proposal "could be severely damaging to market liquidity", if applied to securities financing transactions, adding that securities lending, in particular, "contributes to reducing settlement fails by offering an alternative avenue for accessing securities when traditional routes breakdown.

Earlier this year, the ICMA said that mandating buy-ins will have "adverse impacts on European bond market efficiency and liquidity", noting that a "significant body of evidence suggests it will ultimately lead to increased costs for market participants and particularly end investors".

While the deadline of February 2022 was fast approaching, the European Securities and Markets Authority also recommended a delay in buy-in rules to the European Commission as recently as September.

ESMA was in favour of delaying the entry into force of the buy-in requirements, although it advised that other settlement discipline requirements, such as settlement fails reporting and cash penalties regime, could be enacted on the 1 February deadline as planned.

Commenting today on the news of the postponement, ISLA's Dale says: "ISLA welcomes the recent agreement by EU legislators that there should be a decoupling of the mandatory buy-ins and settlement penalties within the CSDR. Our market has been exploring the far-reaching impact of mandatory buy-ins, which would have had both a disproportionate and negative impact in their current form."

"The penalties legislation will, by itself, accomplish much that this aspect of the regulation intended, and we look forward to seeing a positive trajectory of settlement rates and market disciplines over the course of the coming year. We are also mindful of the remaining challenges and clarifications that are required to complete this part of the journey."

Robert Keane, product manager and Matthew Lilien, business development manager at Pirum (US): "The postponement of mandatory buy-ins is welcome news for the entire market and allows participants to focus on reducing the impact of cash penalties that will be implemented in February."

However, Daniel Carpenter, head of regulation at Meritsoft, a Cognizant company, says despite the postponement of the mandatory buy-in rules, "the clock is still ticking and businesses must be prepared to comply with the penalty rules when they come into force in February 2022. Time will tell how far a 'penalties-only' CSDR will go in addressing the industry-wide issue of settlement fails, but the additional cost implications are certainly focusing minds on more effective fails prevention and management."

"So while many across the industry will welcome the Commission's decision on buy-ins, preparation must continue at pace if firms are to meet the other requirements of the new rules when they come into force in February", Carpenter adds.

Also outlining the hurdles that the regulation still highlights for the financial market, Pardeep Cassell, head of financial products at AccessFintech, comments: "Whilst this change does remove part of the complexity and punitive impact of CSDR, which is positive, it also leaves the door open for longer-running fails, increased penalty amounts, and potentially fewer organisations agreeing to accept partial settlement than we may have seen under the previous iteration. We continue to encourage all market participants to ensure they have a robust pre-matching and settlement process and an efficient mechanism to consume, track and manage penalties and penalty messages."

UMR deadline looms for buy-side firms

The final phase of uncleared margin rules covering smaller financial entities, from pension funds to insurance firms, will come into effect from September 2022. Sam Edwards, APAC head of collateral, State Street, and Kishore Ramakrishnan, European lead, Regulatory Change practice, Vox Financial Partners, discuss the implications

The genesis of uncleared margin rules (UMR) traces back to the Global Financial Crisis, but only now are they set to directly impact buy-side institutions such as asset managers and institutional investors.

The G20 at Pittsburgh in 2009 aimed to reduce systemic risk in global markets by enhancing the transparency and function of over-the-counter (OTC) derivative markets. This resulted in three things: the electronic trading of OTC derivatives, the standardisation of OTC derivative products, and the introduction of swap execution facilities.

Some OTC derivative products have insufficient liquidity, however, to trade via electronic platforms and to clear via a central counterparty (CCP). For these, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO) produced guidance imposing higher capital and margin requirements.

The multi-phase implementation period started in 2016 for institutions with more than €3 trillion of OTC products and will end with the sixth phase for those with more than €8 billion in September 2022. UMR imposes higher capital and margin requirements for non-centrally cleared derivatives, encouraging the move to CCPs.

In the first four phases, predominantly sell-side broker-dealer firms — totalling about 60 entities globally — were caught by the mandate. The fifth and sixth phases have unique characteristics: the firms caught will surge in number to more than 1,100 firms, translating to over 9,500 counterparty relationships, and they will predominantly be buy-side entities.

What will be the main implications?

Sam Edwards: In phase six, a large number of State Street's clients are going to be impacted. Clearly, we're all trying to reduce systemic risk. But, as regulators put more requirements onto smaller firms, it can have the converse effect as they have to build many more processes and cover a lot more activity. We're working to make sure we offer an easy one-stop shop to enable clients to outsource.

In phase five, firms mixed proprietary solutions and outsourcing. In phase six, we will see far more firms looking to outsource to solutions such as Collateral+. Smaller firms don't have the appetite for spending on proprietary solutions, the expertise to build them, or the people to run them. Many more clients are coming to us for UMR services.

Kishore, is that a fair reflection of what you see from a market perspective?

Kishore Ramakrishnan: Yes, phase six is unique in several respects. It will predominantly catch smaller, buy-side firms such as asset managers, pension funds, and insurance firms. They have the advantages of learning from earlier phases and having a greater choice of industry utilities and service providers.

There will be a high degree of outsourcing, not just of UMR-related obligations. They can step back and seamlessly integrate their middle and back offices with front-office trading to get a single source of truth throughout the value chain.

Edwards: From a State Street perspective, we are seeing requests for

> Asset managers tell us they want one point of contact – to supply one set of trade files and receive the full chain of services from middle-office services to collateral management and funding solutions

Sam Edwards
APAC head of collateral
State Street

collateral to be built into middle-office services. We have achieved integration, having just re-platformed our collateral management system. End-to-end integration and onboarding are going to be key.

On the consulting services side, you talk to clients of all sizes and varying requirements. What factors do they consider when outsourcing?

Ramakrishnan: One trend is explicit: exposed firms, particularly asset managers, are very keen to outsource operational pain points to custodian banks.

In the first wave of outsourcing, in around 2000, asset managers turned to the big custodians to take over back-office functions and avoid significant capital expenditure on technology. In the second wave, during the post-crisis years, asset managers needed exotic OTC derivatives for multi-asset strategies, but these were subjected to stringent regulatory scrutiny and clients needed more sophisticated analytics and reporting. Consequently, the focus was on the middle office. They had underinvested in technology and needed to leverage custodians' continuous investment in technology platforms.

Over the last decade, a squeeze on profits resulted in consolidation and the third wave of outsourcing. Asset managers are dispensing with outdated infrastructure and focusing on seamless front-to-back integration to provide instant, accurate and consistent data for investment insights, as well as enhanced performance analytics and reporting. This is where banks will play a significant role in helping asset managers navigate UMR.

State Street's fully integrated and interoperable platform, based on comprehensive and well-governed data management, establishes that single source of truth. The Alpha platform's fully integrated architecture is paying dividends.

Other service providers utilise open architecture, modular operating models that allow asset managers to switch providers and add or remove middle and back-office services. This entails many service provider partnerships and layers of maintenance from the front to back office.

The one-stop shop model avoids the complexity of multiple systems and vendors, as well as siloed operational systems and infrastructure. The industry is gravitating to fully integrated

Collateral is no longer a boring back-office function – it's integrated into the front office and allows firms to generate alpha

Kishore Ramakrishnan
European lead, Regulatory Change practice
Vox Financial Partners

solutions from large custodian banks such as State Street or big investment banks with a custody business.

Edwards: We are seeing a lot more demand for our enhanced custody products, which almost reach into prime brokerage services. They enable that first layer of inventory and collateral management so firms can move between funds seamlessly.

Asset managers tell us they want one point of contact – to supply one set of trade files and receive the full chain of services from middle-office services to collateral management and funding solutions. That's our clients' core business demand.

But clients need to ensure compliance on 1 September 2022, so that is the top priority. Market utilities provide all firms with a common platform to make calculations. However, they will still need solutions either from a one-stop shop or a mix of individual proprietary and outsourced services.

Ramakrishnan: Phase six firms can start taking steps towards regulatory compliance and operational readiness. First, they need to calculate their average aggregate notional amount (AANA) to determine whether they are caught by the €8 billion threshold. Then they need to identify all counterparty relationships, active trades and credit exposures to select the right initial counterparties on the system. Then comes calculating initial margin (IM) and variation margin (VM). A grid-based approach can be used to calculate IM. However, as less-liquid products don't have enough data to calculate IM – the cells try to pick up data that doesn't exist – they may need to rely on the ISDA standard IM model (SIMM).

The operational task of exchanging margin brings fresh challenges. Is it cash versus non-cash? How do you initiate settlement instructions and reports? How do you transfer margin assets? This is where a partnership with a service provider can really help.

Edwards: One of the things we've been working on in relation to onboarding is a new user interface that helps the process and builds on the lessons learned during the first five phases.

Ramakrishnan: Clients underestimate the time required to onboard. During the earlier phases, the floodgates always opened at the last minute, so custodians became overwhelmed. As it can take a lot of time, many custodians politely declined. It's important to learn this lesson and start the process now. Clients also overlook the requirement to comply with both home and host country regulations – it's a double whammy.

From the other side, in the low interest rate environment, securities services providers cannot rely on core custody – they need to offer solutions across the transaction value chain to build long-term relationships.

Edwards: Depending on their growth and development, collateral management is becoming increasingly important for buy-side firms. It has obviously progressed well beyond being a sell-side issue. It's now very much becoming a feature in the buy side even if it's hidden, for example, in treasury functions managing the complete range of financial resources. Many are there now, but it will soon become an optimisation issue for all.

Ramakrishnan: Collateral is no longer a boring back-office function – it's integrated into the front office and allows firms to generate alpha. Before Dodd-Frank, each business line – securities lending, repo, or OTC – was the master of its inventory. Post Dodd-Frank, the walls have collapsed, and consolidating inventory allows better use of assets. In a centralised architecture, the treasury is the gatekeeper that determines the best use of assets to achieve optimisation.

As capital and margin requirements for bilateral portfolios are far more expensive than for centrally cleared portfolios, firms will offer products that mimic the cashflows of OTC products but can be listed and cleared by a CCP, like swap futures.

In general, buy-side firms want to minimise the demand for high-grade collateral. They are trying to realise the convergence of risk, liquidity, and collateral management through asset prioritisation, transformation, and substitution.

However, optimisation means different things to different stakeholders and functions. For the front office, optimisation means control of collateral selection and generating alpha. Treasuries have a different viewpoint – they want to ensure adherence to collateral, liquidity, and regulatory capital requirements.

Service providers are looking to offer a differentiated service to win business and generate greater revenues. Collateral transformation services present a substantial opportunity for the sector.

Securities lending and stewardship: promoting effective shareholder engagement

Active ownership implies a two-way dialogue between investors and corporate issuers — not simply micro-managing, but enabling effective shareholder communication and influence over corporate policy. Bob Currie reviews the implications for securities lenders

Institutional investors have ratcheted up their focus on investment stewardship, ensuring that they have appropriate governance structures, along with the necessary data and tools, to ensure they act in stakeholders' best interests in creating sustainable value.

The United Nations Principles for Responsible Investment (PRI) describe stewardship as a process where investors use their influence over current or potential investees and issuers, policy makers and service providers, often collaboratively, to maximise overall long-term value.

The PRI, established initially in 2005 under the office of former UN secretary general Kofi Annan, identify a range of financial, regulatory and sustainability motivations for asset owners and investment managers to undertake effective stewardship.

This includes regulatory incentives, such as those established under the EU Shareholder Rights Directive (particularly SRD II) which requires asset owners and asset managers to publish an engagement policy and to disclose annually how the key elements of their investment strategy contribute to the medium-to-long term performance of their assets. Among other provisions, SRD II gives companies the right to identify their shareholders and requires proxy advisers to disclose information illustrating how their voting recommendations are reliable and accurate.

Some jurisdictions, including the UK, have published stewardship codes providing guidance to asset owners regarding how they should fulfil their responsibilities as investors and shareholders. The UK Stewardship Code defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society (p 4).

More broadly, pressure from pension and insurance scheme members, policy makers and wider public action (for example environmental campaigns, lobbying of companies, product blacklisting) has motivated institutional investors to reflect more deeply on stewardship as part of their fiduciary obligations to scheme members or ultimate beneficiaries.

David Crum, managing director and head of asset owner solutions at Minerva Analytics, notes that responsible investment (RI) considerations have been rising up the priority list for asset owners. As they apply RI and sustainability criteria to asset allocation and to provider selection, they are also turning their attention to their securities lending and other post-trade activities to ensure these are consistent with the standards they apply across the investment process.

For some pension funds, notes Crum, securities lending is seen as a marginal activity. Although this may provide a valuable source of revenue, these institutional investors do not view this as a core function and do not believe this should get in the way of their long-term stewardship responsibilities. This situation was illustrated in December 2019, for example, when Japan's £300 billion Government Pension Investment Fund announced a widely-publicised termination of its securities lending activities, believing this to be inconsistent with the stewardship responsibilities of a long-term investor.

The recently formed Global Alliance of Securities Lending Associations has released a Best Practice Voting Guide as its first publication. As a general principle, this document advocates that a lender's ability to fulfil their stewardship responsibilities over their underlying investments should not be impeded by their participation in securities lending (p 3).

More broadly, this global alliance promotes industry standard legal documentation, including the Global Master Securities Lending Agreement, which incorporates safeguards to ensure securities lending can be conducted as a complementary activity to a lender's responsible investment strategies. This includes a commitment from borrowers that they do not enter into loan transactions for the primary purpose of exercising voting rights for those securities. This also protects a lender's right to terminate a loan, providing that the lender provides adequate notice.

Some jurisdictions also operate regulations which define the conditions under which firms may engage in securities lending transactions. In North America, for example, Regulation T — which guides the conditions under which a US broker dealer may engage in a lending transaction — contains a "purpose test" limiting borrowing or lending of securities to situations involving short sales or fails coverage. Borrowing to vote a proxy is not a permitted purpose under Regulation T (GASLA, op.cit., p 4).

In this respect, GASLA encourages lenders to align with UN PRI principles, including guidance on when shares on loan should be recalled for voting purposes. In doing so, lenders should assess the materiality of the vote against the impact that recalling the securities will have on projected lending revenue. On balance, the UN PRI recommends that: 'Recalling all shares is usually a rare approach, as this could cause clients or beneficiaries to incur financial losses greater than the negative impacts of not exercising voting rights — for example, when there are no controversial items on the agenda (UN PRI, Practical Guide to Active Ownership in Listed Equity, 2018, p 28).

Matthew Chessum, investment director for securities lending, collateral management and money markets at abrdn, observes that securities lending activities have become more prominent in the fund manager appointment process. Asset management firms are now receiving more detailed evaluation in the request-for-proposal (RFP) questionnaire asking about collateral requirements, about procedures for recalling stock, in some cases about the percentages of stock from a fund portfolio that has been recalled for voting purposes. Institutional investors (and their consultants) are also requesting additional information on an asset manager's internal risk controls, how it applies technology and the tools that it uses for analysing and reporting performance.

The key, notes Chessum, is to ensure that the stewardship, governance and sustainability principles established for the fund are applied across all parts of the investment process, from investment decision-making through to trading and post-trade functions. This requires that all securities lending and collateral management activities must align with the standards established at fund level — whether this relates to voting and recalling stock, the application of ESG screening to received collateral, or ensuring that the securities lending strategy aligns with the risk parameters agreed by the fund board on behalf of investors.

Oversight is a key part in meeting these fiduciary responsibilities. “This requires that lending performance is effectively benchmarked and aligns with our specified risk budget and return targets,” says Chessum. This also, among other responsibilities, involves oversight of agent lenders and all other outsourced services. “With this in mind, we must be holding agent lenders and other service partners to account, ensuring that we are asking the right questions and that we draw an appropriate level of detail and transparency from our periodic performance reviews,” he says.

In line with this principle, GASLA advises that asset owners should engage with their lending agent(s) — if they use one — to establish an effective and efficient operational structure that aligns with their governance and responsible investment policies (p 3).

The key takeaway for asset owners, notes Minerva’s David Crum, is to understand what is going on within their lending programme and how they are exposed to lending activity — whether in their own lending programme, or via a pooled structure if they invest via exchange-traded funds (ETFs) and collective investments. This information is not always easy to access and for pooled funds this may require looking deep into the fund documentation.

Crum indicates that it is also advisable for asset owners to clarify, and to specify clearly in their shareholder engagement principles, what their position is on short selling. “I have engaged with trustees that say they are opposed in principle to short selling, but they have given little consideration to whether they are inadvertently supporting this activity by lending assets from the pension scheme,” he comments.

Stephen Merry, head of advisory and analytics at Thomas Murray, notes that while the supplier selection conversation with institutional clients has historically centred heavily around opportunities for generating lending revenue, asset owners increasingly recognise the importance of drilling down deeply into the risks — credit risk, collateral risk, operational risk — associated with lending activities.

This, he says, is fundamental to Thomas Murray’s approach as a provider of supplier and infrastructure risk analysis in capital markets.

While most lenders receive indemnification from their lending agent, for example, in practice the language employed in the indemnification agreement and the coverage this provides can vary dramatically from one agent lender to another. It is essential to evaluate this indemnification in detail, understanding clearly how it operates and the strength of the lending agents’ risk management framework beyond the indemnification.

To provide independent verification of data provided via RFP responses, Thomas Murray has been working closely with a securities lending specialist [which it chooses not to name at this time], particularly to validate revenue estimates and to assess how this will vary with changes in lending strategy, the composition of the inventory of lendable assets, and the lender’s tolerance for risk.

In profile

For Minerva’s David Crum, voting is coming back into profile as a mechanism through which institutional investors can influence company policy regarding environmental, social and governance issues. Investors recognise this as a way of getting things done. To fulfil their policy on diversity and inclusion or on climate change, for example, their foremost step may be to research publicly-listed companies in their investment portfolio and look to define management policy through shareholder engagement. This, he says, all comes back to good stewardship.

Some local government pension funds have been doing this for several decades — either directly reading company accounts and annual reports and formulating their voting policy on the basis of whether management directives warrant support at an AGM or EGM, or using the services of a proxy voting research company to help with the heavy lifting of the analysis of resolutions. However, the practice is now becoming more universal, with more pension funds thinking about having their own bespoke voting policies to implement their ESG or RI policies or beliefs.

Fund managers are also recognising the importance of applying sound governance and stewardship principles across actively managed and passive strategies.

Frankfurt-headquartered international asset manager DWS explains that, for its active portfolios, it meets regularly with the management of portfolio companies and discusses ESG and associated topics, especially in cases of green or sustainable bonds. Its focus on active ownership also extends to its passive investments where, according to DWS, "it is even more important to engage in terms of governance and encourage positive change through voting." Without the possibility to make active investment decisions, it says, "we are effectively 'permanently' invested and thus, have a fiduciary duty to foster changes designed to increase shareholder value in the longer-term."

DWS uses the services of two proxy advisory service providers: Institutional Shareholder Services Europe and IVOX Glass Lewis. "Both service providers analyse general meetings and their agendas based on our proprietary voting policy and provide us with voting recommendations and their rationale," says a DWS spokesperson. The voting follows a four-eye principle approach, whereby investment professionals and members of the DWS Corporate Governance Center put forward voting proposals and the members of the Corporate Governance Center [on behalf of DWS Investment GmbH] provide the final approval for the votes to be instructed.

Minerva has worked with clients over a number of years in developing bespoke voting policies. It has also developed a sustainable securities lending solution. In providing this service, Minerva takes in data feeds from the custodian, typically on a daily basis, detailing client assets that are out on loan. It then screens these against the issuer ratings maintained in its research database. Investor clients have flexibility to set bespoke trigger levels which flag up contentious issues that may require a loan recall. This information, including the ability to instruct a share recall, is available to asset owners via the client portal — and this screening process can be applied to the received collateral, as well as invested assets that they hold in portfolio.

"In developing our stewardship services, we continue to push for greater transparency across the chain of shareholder communication, from issuer to investor, to ensure that all votes cast are truly counted — and that when stock is recalled, it is returned in time for it to be voted as intended," says Crum. Although this was a priority in the second Shareholder Rights Directive, it is unclear whether this has delivered the intended advances in shareholder communication and voting efficiency. "We continue to press for custodians to share information so we can benchmark performance in this area," adds Crum.

Voting policy is commonly at the forefront of discussions between asset owner and agent lender, notes Thomas Murray chief executive Ross Whitehill. Typically, the lending agent will wish to know at an early stage what the investor's policy will be with regard to shareholder communication. Does it intend to vote all eligible stock? To vote certain types of stock? What will its requirement be in terms of share recalls?

This discussion is important, Whitehill notes, in defining the terms of the lending relationship and the list of eligible counterparties. "If the lender expects to recall stock regularly, this is likely to be reflected in the lending fee. This is also relevant as asset owners apply ESG screening to collateral that they will accept. If the collateral receiver applies highly-restrictive collateral eligibility criteria — whether based on credit quality or ESG criteria — this is also likely to be reflected in the lending fee."

With this in mind, there are some within the industry that believe that sector-based exclusions are simply unsustainable, providing a blunt instrument for screening eligible collateral that will ultimately result in collateral shortages (at least for certain collateral types) and a rise in the cost of collateralisation.

To this point, DWS says it has deliberately decided against implementing top-down sector-based exclusions and has introduced enhanced level due diligence when there is evidence that issuers face excessive climate and transition risks or severe and confirmed violations of international norms (DWS, Active Ownership: Engagement and Proxy-voting Report, 2021, p 16).

Data and performance metrics

In helping asset owners to fulfil these commitments, Thomas Murray's Merry identifies high-levels of investment by leading custodian-lenders and triparty agents in their securities lending and collateral optimisation platforms. These are now offering a wide range of performance and risk metrics associated with the lending programme and the ability to align a lending programme with a lender's individual ESG parameters objectives is paramount.

SFT asked abrdn's Matthew Chessum whether his securities lending, collateral management and money markets team is making use of a wider range of data vendors and metrics to help them meet their stewardship responsibilities.

"This is certainly the case at fund level," he replied. "As an investment manager, we employ feeds from a range of data vendors to help us to analyse an issuer's carbon footprint, for example." Beyond this, abrdn has not recently extended its use of data vendors and ESG metrics specifically to support its securities lending activity. “In accordance with my earlier point, the key is to ensure we are aligned with the standards applied at fund and company level. This must be consistent across the organisation.”

“In evaluating our fiduciary standards, the overarching question is typically “What does the investor expect when they invest in an abrdn fund? And, would they invest after completing thorough due diligence on the company and its fund products?”, adds Chessum.

Pooled funds service

In February, the fund manager DWS, in partnership with the Asset Management Exchange (AMX), Minerva Analytics and Northern Trust, released an investment solution that enables pension schemes to express their stewardship preferences through voting in pooled funds.

This service aggregates investor preferences and seeks to execute votes in alignment with the distribution of preferences across the fund’s unit (or share) holders. Where aggregate investor preferences conflict within a pooled fund, voting instructions can be split accordingly.

Commenting on this service, the service partners note in a joint statement that institutional investors in pooled funds have historically relied on the investment manager to execute a voting policy for the pooled fund. However, when investor preferences have diverged from the manager’s policy, they have been forced to accept the votes placed by the manager.

Shalin Bhagwan, DWS head of Pensions Advisory and EMEA Consultants, says: “We identified a need to advance stewardship practices in the context of pooled funds to align more closely with investor responsibility and preferences with proxy voting. This move to democratise the process fits with a changing political and social context that increasingly views responsible stewardship as an important part of asset ownership.”

Bhagwan describes how DWS worked closely with its development partners to put in place a solution whereby each partner could leverage their areas of expertise. “For DWS, that means our decades-long experience of efficient index tracking and portfolio management,” he says. “This year we have focused on rolling out the concept and educating the market on why this is needed. We hope to be launching the first fund early next year.”

Minerva founder and chief executive Sarah Wilson notes that pooled funds index strategies are a highly cost-effective proposition for long-term investors. “For too long, however, that has meant compromising on stewardship and voting issues,” she says. “We have always believed that the application of smart technology can offer investors the best of both worlds: cost effective asset management with active ownership.”

“Previously, there has been little to stop collective investment fund managers splitting their votes in this way,” adds Minerva’s David Crum. “It is disappointing that it has taken until this year to develop a workable solution and to see fund managers’ voting shares held in pooled funds in accordance with the stewardship preferences of their investors.”

Since DWS has adopted this strategy, BlackRock has also declared a commitment to making voting choice options available to institutional clients invested in index strategies through segregated accounts or certain pooled funds. This will apply for approximately 40 per cent of the US$4.8 trillion index equity assets that BlackRock manages on behalf of clients in the US and UK.

Beginning in 2022, BlackRock says that it is taking the first in a series of steps to expand the opportunity for clients to participate in proxy voting decisions where legally and operationally viable. To do this, BlackRock has been developing new technology and working with industry partners over the past few years to enable a significant expansion in proxy voting choices for more clients.

Notwithstanding, BlackRock notes that in certain markets proxy voting involves logistical issues which can affect its ability to vote proxies and the desirability of doing so.

Consequently, BlackRock votes proxies on a “best-efforts” basis. In some circumstances, BlackRock Investment Stewardship may determine that it is in the best interests of BlackRock’s clients not to vote proxies if the costs (including, but not limited to, opportunity costs associated with share-blocking constraints) associated with exercising a vote are expected to outweigh the benefit the client would derive by voting on the proposal (BlackRock Investment Stewardship: Global Principals, effective Jan 2021, p 12).

“Much like asset allocation and portfolio construction, where some clients take an active role while others outsource these decisions to us, more of our clients are interested in having a say in how their index holdings are voted,” says a BlackRock spokesperson.

Sustainable repo: finding the right balance

After the release of ICMA ERCC's consultation summary report on the role of repo in green and sustainable finance, leaders in the industry discuss the effects of green collateral on an evolving sector and the possibilities of attaining a truly green repo market. Carmella Haswell reports

Creating a green and sustainable financial landscape has become a priority for many companies, with the implementation of the Sustainable Finance Disclosure Regulation (SFDR), the International Capital Market Association's (ICMA) Green and Social Bond Principles (GBP) and deadlines from COP26 pushing every financial firm, bank, insurer and investor to change in order to achieve net zero by 2050.

After months of conversing with 18 different firms, a September summary report by ICMA's European Repo and Collateral Council (ERCC), titled The Role of Repo in Green and Sustainable Finance, evaluated the sustainability aspects of repo and collateral as well as the potential opportunities and risks in this area.

Alexander Westphal, ICMA director of Market Practice and Regulatory Policy, and secretary to the ICMA ERCC, says the two months following the report have allowed ICMA to start constructing a Task Force to tackle repo market concerns. Combining the forces of the ERCC and GBP, ICMA has invited member firms to select candidates to join the Task Force, with the aim to hold a kick-off meeting by the end of the year.

Westphal comments: “Finding the right balance between promoting sustainability and ensuring the efficiency and safety of the repo market, as well as safeguarding the crucial role it plays for the wider financial market, will certainly be a key objective of the new Task Force. We are very keen to have all the relevant stakeholders represented in the group so we can ensure that the different perspectives are properly taken into account when it comes to the formulation of any definitions or best practices.”

Green collateral repo

The ICMA summary report explored three intersections that it asked stakeholders to consider: “repo with green and sustainable collateral”; “repo with green and sustainable cash proceeds’’; “repo with green and sustainable counterparties”. According to an ERCC committee meeting, the financial landscape is moving towards a green repo market where buyers and sellers will only transfer bonds as collateral that are classified as green. Eurex launched its Green Bond GC Basket in November 2020 and other central counterparties (CCP) and triparty agents report growing demand from clients to support classification and movement of sustainable collateral.

The report also explores the cash leg of repo — where a strict definition of green and sustainable repo might require the cash loaned in a repo transaction to be invested in green projects or activities, thereby boosting the sustainable finance ecosystem. The third dimension to be considered was the classification of the counterparties to the repo transaction, with the borrower’s and lender’s sustainability performance or profile being key in this instance.

Participants listed several important steps to building an efficient market for green and sustainable repo trading. This includes supporting market liquidity, facilitating market making, supporting primary market issuance and fostering price discovery. However, one respondent cautioned that green collateral repo may not provide the necessary transitional environmental benefits if it is strictly limited to green collateral. Furthermore, it was suggested that in the green loan market, non-green assets are often accepted as securities for secured finance that will then be used to produce green assets. A more open approach would enable a better transition compared to “green collateral repo”, where only green assets are used as collateral.

Reinforcing this point, respondents identified a need for the ICMA to assess possible adverse impacts and risks that green repo may have on non-green finance. For example, in ICMA’s April 2021 consultation paper, it questioned “if the pool of eligible collateral is limited by regulators or central banks in the future, and non-ESG investment collateral is deemed less preferable”, then what is the impact of such stricter criteria on the collateral fluidity, liquidity and efficiency in the overall market?. “As noted in the summary report, this is certainly a potential concern and a topic that the new Task Force will probably want to consider in more detail,” says Westphal.

Reflecting on the relationship between green and non-green finance, Marc Poinsignon, expert collateral management at Clearstream says: “Ultimately, what you want to avoid is some sort of cliff edge situation between what is deemed green and non-green. The joint work done by regulators and industry participants as a whole is essential to achieving a smooth transition that supports the objectives to address climate change and social governance.”

Repo and securities finance have a role to play in facilitating growth of environmental, social and governance (ESG) across asset classes, according to Poinsignon. This transition in capital markets may require a phased approach with achievable, scalable and standardised parameters as well as different transitional strategies in different regions and economies, he adds.

Furthering this point, Gerard Denham, senior vice president of fixed income funding and financing at Eurex, emphasises that the “repo market won’t change to fully green on a deadline date set in the future”. He encouraged the repo market, and its associated infrastructure providers, to continue to support issuance and liquidity across all asset classes — green and non-green.

The ICMA report also highlighted the absence of clear standards and how this could lead to claims of greenwashing. 17 respondents agreed greenwashing was a top concern, commenting on risks involving the incorrect classification of products as ‘green’ investment — where no additional green assets are created or no additional funding goes into green activities — and ‘double counting’ of green collateral repo, when both the buyer and the seller of the repo claim the green collateral as their own green investment.

Beyond greenwashing, respondents highlighted the need for clear procedures to ensure that collateral eligibility criteria are applied throughout the lifecycle of the repo transaction — and that the ESG quality of collateral is not compromised through collateral substitution that replaces 'green' assets by 'brown' assets for example.

To support the functioning of a sustainable repo market several firms have launched products and services to classify and select green collateral. In the coming weeks, Clearstream will introduce ESG bond identifiers which will be implemented as criteria for inclusion in collateral baskets, defining eligibility, concentration limits and haircuts. Available for triparty transactions between clients, the identifiers leverage international standards, principles or guidelines that are available in the market and can be used alongside any liquidity and risk criteria already available, explains Poinsignon.

Ultimately, what you want to avoid is some sort of cliff-edge situation between what is deemed green and non-green

Revealing Eurex's process when it comes to selecting green collateral, Denham adds: "We work within existing Eurex Clearing eligibility criteria for all the bonds that we take as collateral for repo transactions. For the green bond general collateral baskets, we added additional criteria, which means they must be classified as a green bond."

He continues: "They need to be investment grade quality, and a Euro denominated, fixed income security. The green bond must also be issued in line with the ICMA's Green Bond Principles. Potentially, they could also be aligned to the EU Green Bond standard, which is due to be put into play in regulation within the next three to six months."

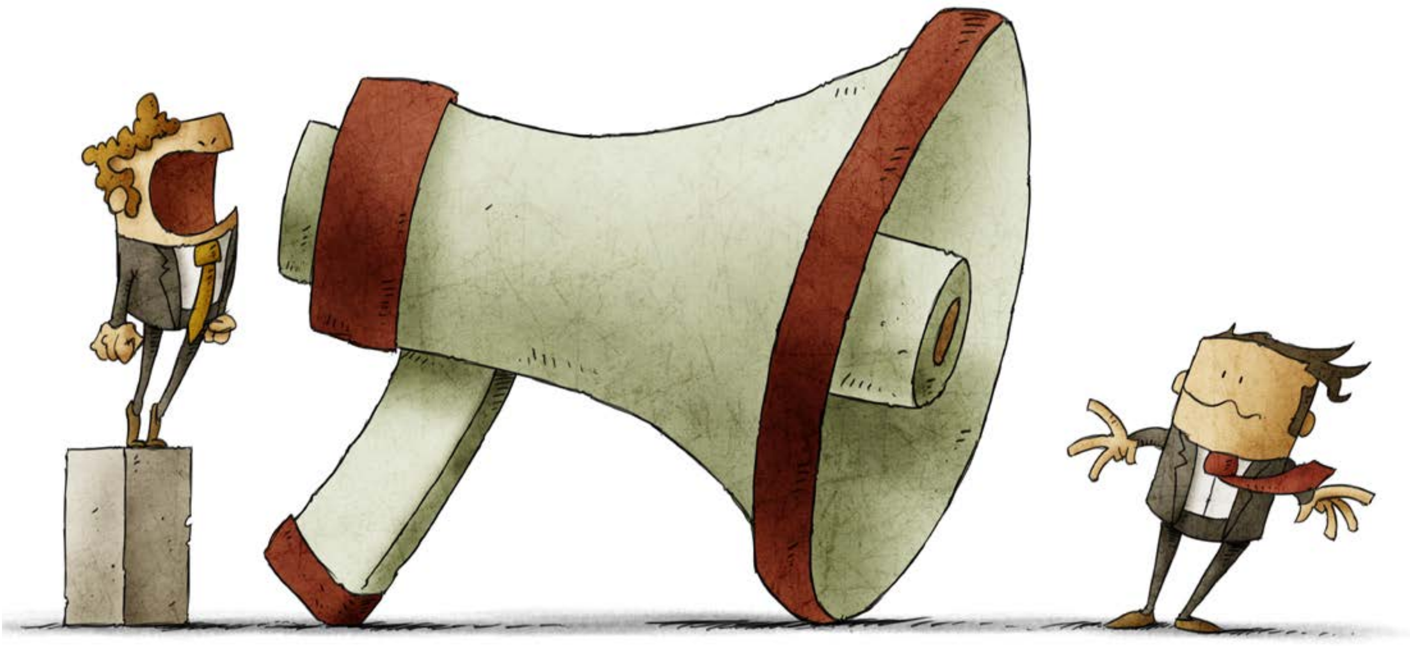
Defining green and sustainable repo

Respondents to the ICMA report highlighted several ways the association could contribute to the development of a green and sustainable repo market, establishing clearer definitions and standard approaches for different types of repo as a starting point. More than half of the respondents suggested the trade association produce a specific framework similar to ICMA's GBP.

Clearstream's Poinsignon indicates that there are multiple components to a repo trade that need to be considered when assessing whether the transaction can be classified as "green" or "sustainable" — there's the collateral element, how the cash is deployed, and counterparty for example. "For sure one of the starting points is the collateral itself," he says. "Leading international standards and principles, such as those from ICMA or the Climate Bond Initiative, can already be applied on the securities. These bring notably transparent frameworks and detailed information on the ESG characteristics of the bond."

Eurex's Denham indicates that there are two main elements to a green or sustainable repo transaction. He says: "One is underlying green collateral, such as Eurex Repo's Green Bond GC Baskets, which we believe can be classified as a sustainable repo, in reference to the ICMA report. The other area is to do with the cash element of the repo transaction and we believe there's work to be done on that where you can link that cash, or the cash management of the repo transaction, to sustainable linked investments." However, this is dependent on the appropriate data being made available by vendors to market participants and market infrastructure providers.

Poinsignon suggests that to provide clarity to the securities finance market, trade associations need to evaluate possible adverse impacts on market stability and pro-cyclical risks on non-green finance. Additionally, they should be supporting sound and transparent operating models that mitigate risk and enable long-term investor engagement on securities that they're invested in.



The clamour for transparency

Evaluating the potential impact of US Exchange Act Rule 10c-1, FIS' David Lewis warns that the ambition to provide data to create a level playing field for all players may, in fact, make it harder for some

Buses. Never one in sight when you need one, then there are three at once. Or so the saying goes, at least in London. Regulations seem to be starting to exhibit the same behaviour. Rarely seen loitering around the securities lending markets for years, regulations are now coming thick and fast — relatively speaking for regulations that is.

The latest arrival on the regulatory scene is the proposed rule for Exchange Act Rule 10c-1 and, given it was announced just a few weeks ago, it has created perhaps more column inches across a wider variety of publications than many of its predecessors. This may be, in part, due to it having one of the longest lead ins for any new regulation, being based on the Dodd Frank Act which was first published back in 2010, where enhanced transparency was identified as a requirement for the markets post the financial crisis.

Searching for information on the web returns commentary and analysis from all points along the spectrum, from the Wall Street Journal and the Financial Times to the seminal sportsgrindentertainment.com.

Reassurance is given by the author of the last example as they commit to bringing "relevant and unaltered sports news to the general public". While this is a slightly facetious comment, it is designed to make a point about the gamification of financial markets.

Opaque market?

As a data provider in this space, it might be assumed that FIS would naturally be against any potential threat to the services we deliver, services that have been bringing intraday transparency to the global market for over 15 years. A publicly available and free service that, at least in its currently proposed form, indicates that it will provide same-day transparency to the market for all US securities is surely a threat to us and our esteemed competitors, isn't it?

If that were the case, of course, we might be critics. Far from it: transparency is key to effective markets and, on that point, we certainly agree with the idea that more data transparency is a good thing.

However, there are other aspects where we might respectfully disagree and raise concerns.

Looking at the stated objectives of this newly proposed rule, it is intended to bring transparency to “an opaque market”. The opening line of the US Securities and Exchange Commission’s (SEC’s) fact sheet describes the desire to “increase transparency and efficiency in the opaque securities lending market”, which points a little toward being presumed guilty before proven otherwise. Had that statement been made in 2000, it would have had some legitimacy. However, the three leading data providers in this market have independently and collectively been delivering significant levels of transparency since at least 2002.

The proposal does go on to point out that this information is, broadly, on a give-to-get model which means that you must be an active market participant to be able to meet that barrier to entry and therefore benefit from the data pool it buys you access to. On that basis, some would argue that they are being kept from seeing information that may be pertinent to their own investment strategies — information that institutions and professionals have access to, but the retail investor does not. This, therefore, may be seen to be unfair.

There is some credence to that argument, but there are also a plethora of web applications and data services that digest and process that information for the retail client. There are multiple examples of low-cost trading data platforms that use short interest data as part of their market analytics and research services. These can be accessed directly or through apps on the main platform providers, such as Bloomberg or Refinitiv for example, servicing the serious retail investor. Other platforms are available of course!

As a global data provider, processing millions of transactions per day across trillions of dollars of loans, FIS is more than aware of the kind of processing power required to make sense of this volume of data. Having a regulator publish such data for free does not resolve the issue of equal access to data. Instead, it dangles the promise of it in front of retail investors, who will then have to invest in some impressive hardware to make sense of the data.

SFTR experience

It is disappointing to see that the same mistakes are being repeated here as have been seen in the initial designs of the Securities Financing Transactions Regulation (SFTR). For example, the requirement to deliver collateral data alongside the loan details misses the reality of a loan transaction and how counterparties exchange collateral. In the US, 50 per cent of loans are against cash collateral, according to the ISLA Market Data Report (June 2021), making that process easier for half the activity, but with half the data being significantly more problematic. This will arguably extend beyond 50 per cent of loans if equities are accepted as collateral in the future, something that has been discussed for some time but has yet to materialise. Market participants will also be more than aware of the impact collateral quality has on the borrowing costs of a given security, adding another layer of complexity to the data to be ingested and processed.

One thing that has been learned from the SFTR experience is the advantage of single-sided reporting. As currently proposed, only lenders will be required to submit transactional data within 15 minutes of trade execution, and that means all lenders. This may be a difficult undertaking for some lenders, particularly in the retail space, or for smaller organisations that do not use agents to lend on their behalf and shoulder the reporting burden for them. It has been indicated that the costs of this initiative will be borne by the lenders. More information is needed on this part of the proposal before some may consider ceasing lending due to the additional costs incurred.

Two seemingly innocuous statements also appear on the SEC fact sheet. First, all trade modifications should be reported through the life of the loan. While this is, of course, a valid means to track how rates and borrowing costs change, it will add significant complexity to anyone looking to derive accurate information from the depth of data. Second, lenders will be required to report “securities that are available to loan”. It is not clear whether this is also data that will be made public, but some contributors may find this a step too far and, again, consider this to be another reason to stop lending their securities.

Transparency is a prerequisite for efficient markets. That is a broadly accepted fact, but it is also true that the wrong indications or deductions can create risk and liability. It is incorrect to say that the successful processing of millions of trades and tens of millions of lifecycle events each day is beyond the ability of every retail investor that tries to assimilate and include it in their own trading strategies and analysis. But when it goes wrong, as it did for many with the gamification of GameStop shares, who will carry the liability for loss? It may be that the desire to provide data to level the ground for all players, in fact, makes it much harder for some.

Northern Trust, Trading Apps and Wematch latest hires and more

Northern Trust's head of capital markets for Asia Pacific, Mark Snowdon, has left after 11 years with the firm to pursue other opportunities.

Snowdon joined the company in 2010 as senior vice president, securities lending client management for Europe, Middle East and Africa, where he led business development efforts for the European region and managed securities finance client relationships.

In 2018, he was appointed head of capital markets, replacing Dane Fannin, who was appointed global head of securities lending.

Based in Singapore, Snowdon was responsible for driving the strategic alignment, growth and development of securities finance, brokerage, foreign exchange and transition management for APAC.

Wematch has appointed Christine Lowe as head of client coverage and Michael Sabbah as head of equity derivatives.

Lowe joins the company with almost two decades of experience. Prior to joining Wematch, she was equity finance trader at BNP Paribas CIB.

Before this, she was an equity finance trader at Deutsche Bank for more than 16 years.

As a senior member of the hedge fund facing equity finance desk, Lowe managed the central and Eastern Europe, Middle East and Africa offering and specialised in synthetic flow across all regions.

Matthew Harrison returns to Trading Apps as CEO

Trading Apps welcomes Matthew Harrison back to the firm as CEO after a three-year spell at BNY Mellon.

In 2018, Harrison joined BNY Mellon as a managing director in the securities lending division, supporting its purchase of Trading Apps software which targeted enhanced price discovery, reporting and analytics for its agency securities lending business through integration of securities finance market data and automated algorithmic execution.

Following this transaction, Harrison, Jeff Lloyd and eight other Trading Apps staff joined BNY Mellon's UK office for a "compelling strategic opportunity". At this point, Laura Allen was promoted to Trading Apps' managing director.

Harrison founded Trading Apps in 2011 where, after eight years with the firm, he stepped down to non-executive director during the first year of his term with BNY Mellon.

His career spans three decades in this industry sector, working previously at Lehman Brothers, Credit Suisse and Deutsche Bank. In 1998, he founded Real Time Financial Management, where he developed the Martini system that was subsequently purchased by Sungard (now FIS) and renamed 'Apex'. Harrison joined Rule Financial as director in 2008 and this eventually led to him cofounding Trading Apps in 2011.

Based in London, Sabbah will lead the product and sales team on equity derivatives.

While Wematch's immediate development priority lies in meeting its European market needs, the team has ambitions to expand its coverage globally in the near future.

Sabbah's vision is to provide all services in this business area that Wematch does not offer currently, from traditional voice brokerage through to intermediation in the era of data and automation.

Bringing 20 years of experience to the role, Sabbah's trading expertise encompasses delta one, volatility, dispersion, exotics and systematic trading and these skills will be key to expanding Wematch's product offering.

Prior to this role, Sabbah was head of relative value trading, Europe at Morgan Stanley for three years. He also spent 15 years at BNP Paribas, where he was most recently head of short term stock volume trading, Europe.

BancTrust & Co. Investment Bank, a London-based emerging markets investment bank, has announced the formation of its securities finance team, which will be spearheaded by Tanweer Khan.

Khan, who has been involved in the securities finance industry for more than two decades, will join the company as managing director, head of global securities finance and will report to head of global markets and BancTrust board member, Dean Tyler.

Prior to joining BancTrust, Khan was head of credit and emerging markets at UniCredit.

He was also the global head of repo and collateralised financing at Standard Chartered Bank. In this role, Khan built the secured financing business from scratch across the Standard Chartered Group, overseeing its growth to a balance sheet of more than US$30 billion.

Earlier in his career, Khan built and ran various secured financing businesses across UBS, Credit Agricole and Dresdner Bank.

Broadway Technology has expanded its leadership team with the hire of Eitan Reich as chief technology officer and Dario Gatta as chief information officer.

Based in New York, Reich will drive Broadway's overall technology vision, strategy and innovation roadmap, leveraging his 14 year tenure at Broadway including multiple technology leadership roles.

In each role, he has tapped his capital markets expertise as he works closely with Broadway's clients to understand their challenges and deliver solutions to power their trading operations.

Based in London, Gatta will oversee Broadway's corporate IT, information security and technology operations, as well as its Greyspan business, which offers Broadway clients full-service co-location, cloud hosting and system oversight.

Gatta provides more than 20 years of experience in technology and capital markets, acquired from multiple senior roles across software development, product management and professional services.

Prior to this position, Gatta acted as consultant at ION Trading for 13 years and product manager at healthbridge for two years.

Publisher: Justin Lawson
justinlawson@securitiesfinancetimes.com
+44 (0) 208 075 0929

Group editor: Bob Currie
bobcurrie@securitiesfinancetimes.com
+44 (0) 208 075 0928

Senior reporter: Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0) 208 075 0925

Reporter: Carmella Haswell
carmellahaswell@securitiesfinancetimes.com
+44 (0) 208 075 0925

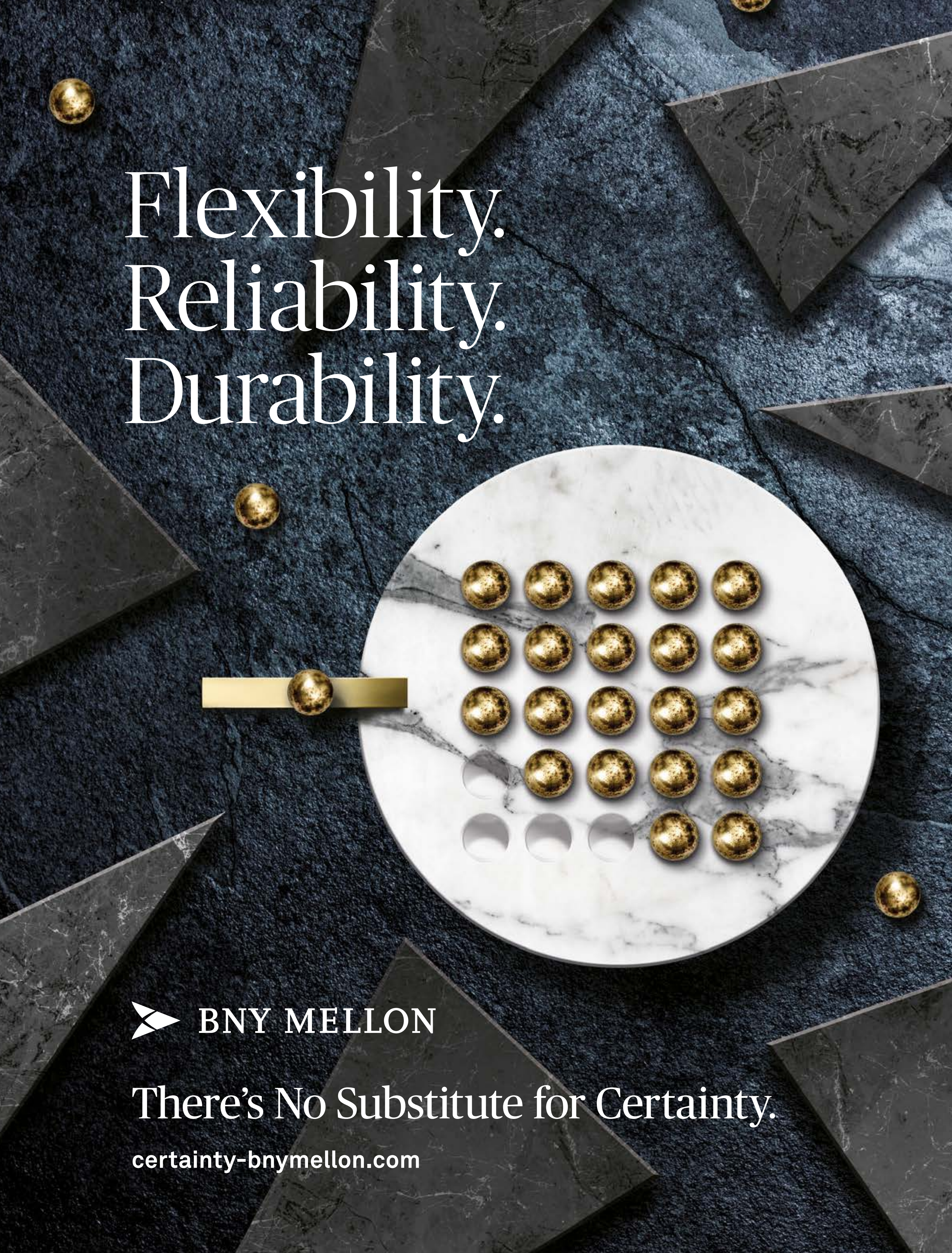
Reporter: Rebecca Delaney
rebeccadelaney@blackknightmedialtd.com
+44 (0)208 075 0923

Accounts: Chelsea Bowles
+44 (0) 208 075 0930
accounts@securitiesfinancetimes.com

Designer: James Hickman
jameshickman@blackknightmedialtd.com +44 (0)208 075 0923

Marketing director: Steven Lafferty
design@securitiesfinancetimes.com

Published by Black Knight Media Ltd




Tailor-made solutions
in Prime Finance.
Visit us at **www.zkb.ch**