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A time of reflection

SFT asked 12 firms about their priorities and expectations for 2022

Acadia and Transcend form Collateral Validation Service

Acadia and Transcend have partnered to deliver an automated Collateral Validation Service to support firms in complying with Uncleared Margin Rules (UMR) Phase 6 requirements.

This service allows the buy-side and broker-dealers to manage the growing complexity and volume of margin activity driven by UMR.

It is designed to ensure all end of day collateral balances held at third-party and triparty custodians meet the required criteria, including collateral eligibility, sufficiency, concentration, and wrong-way risk according to the requirements defined in their related collateral agreements.

Integrating Transcend's triparty and custodian connectivity and collateral validation analytics along with Acadia's margin, collateral and agreement management products, the service provides validation capabilities in accordance with client agreements and communicates results daily.

The service will be hosted on Acadia's platform independent of a client's existing collateral management workflow.

Speaking on the announcement, Bimal Kadikar, CEO at Transcend says: "Our Collateral Validation Service empowers firms to respond to the new and existing margin requirements. As we formally extend Transcend's offerings to the buy-side, we are excited for the many opportunities ahead with Acadia and look forward to expanding our capabilities in new, transformational ways."

Mark Demo, head of business development at Acadia, adds: "By partnering with Transcend, we continue to ensure that our clients benefit from a more streamlined and automated approach to UMR compliance. Our overarching goal is to deliver value and reduce risk for our clients and we are excited by this partnership since it firmly delivers on this objective."

Inside this issue

ISLA adopts PASLA annexes to the GMSLA

The International Securities Lending Association (ISLA) and the Pan Asia Securities Lending Association (PASLA) have today entered into a legal services arrangement for GMSLA documentation.

The arrangement regarding the Global Master Securities Lending Agreement (GMSLA) will facilitate the development of future annexes and addendums identified as requisites for securities lending activity in Asia Pacific markets.

This step toward digitisation of industry documentation was announced last month with the objective of enabling firms to access market-standard templates, which promote the adoption of standard provisions across the securities lending market.

All the latest addendums and country annexes to the GMSLA are available to ISLA and PASLA members on the ISLA website.

BrokerTec sees rise in US and European repo

BrokerTec has recorded a 31 per cent YoY increase in average daily notional value for US repo activity, with ADNV rising to US$257 billion in December, according to recently posted trading results from CME Group.

European repo average daily notional value rose 1 per cent to €257 billion over the same period.

Overall average daily volume traded through CME Group rose to a record 19.6 million contracts during 2021, a 3 per cent rise on 2020.

More specifically, interest rate futures and options volume grew by 15 per cent during 2021, headed by a 212 per cent rise in SOFR futures contracts and a 46 per cent increase in 10-year US Treasury Note contracts, with both asset classes hitting record ADV levels during 2021.

The Chicago-based derivatives exchange indicates that average daily volume traded outside of the US rose by 4 per cent YoY to 5.5 million contacts for 2021, driven by 5 per

cent growth in both Asia and Latin America and 3 per cent growth in EMEA.

It also reported record bitcoin ADV of 10,105 contracts for 2021, a 13 per cent increase YoY

Clearstream's GSF business grows in December

Clearstream's Global Securities Financing (GSF) business expanded by 11 per cent YoY to €567.0 billion volume outstanding during December.

Total assets under custody held in Clearstream also rose by 11 per cent YoY during December to €16,876 billion.

For the Luxembourg-based ICSD business, securities deposits climbed 7 per cent YoY during December to €7,564 billion, although transaction volumes contracted by six per cent over this period to 6.1 million.

Securities deposits in Clearstream's domestic CSD business, notably Clearstream Banking Frankfurt and LuxCSD, increased by 14 per cent YoY to €5,875 billion, with trades processed rising 15 per cent to 16.7 million.

The Investment Funds Services business also made strong gains during December, rising 16 per cent YoY to €3,438 billion with subscriptions and redemptions processed growing by 11 per cent to 4.3 million.

VERMEG partners with Cassini Systems to aid IM requirements

VERMEG announces partnership with Cassini Systems to support firms facing Initial Margin (IM) requirements.

The collaboration will aid financial institutions with uncleared over-the-counter (OTC) derivatives, exchange-traded derivatives and prime brokerage.

VERMEG has integrated Cassini's margin analytics platform into its COLLINE collateral suite, allowing for cost efficiencies and helping to meet requirements of the Uncleared Margin Rules (UMR).

It will also provide clients with a comprehensive workflow for managing intraday and end-of-day collateral requirements centrally within COLLINE's

standardised workflow, inclusive of collateral optimisation, according to the firm.

The integration includes Cassini's Standard Initial Margin Model and Standard Approach calculation service at pre and post-trade, as well as margin methodologies of exchanges, central counterparties (CCPs) and prime brokers, providing transparency across asset classes.

Speaking on the announcement, Liam Huxley, CEO of Cassini Systems, says: "As UMR reaches phase 6 and impacts the full range of buy-side firms, the need for a complete and flexible, front-to-back SIMM calculation, including the generation of sensitivities, is critical. The time for these firms to prepare is now."

Wassel Dammak, head of collateral solutions strategy, adds: "We are excited to partner up with Cassini to help clients more efficiently manage their margin by leveraging analytics at different stages of the collateral workflows. By September 2022, firms will be impacted globally by UMR, and Cassini can help those firms. The combination of COLLINE's process automation with Cassini's margin analytics will enable clients to leverage a one-stop-shop solution to manage business and regulatory requirements."

Standard Chartered to acquire RBC Investor Services Hong Kong

Standard Chartered Bank Hong Kong (SCBHK) is to acquire RBC Investor Services Trust Hong Kong Limited, subject to regulatory approval. The acquisition aims to enhance SCBHK's securities services capabilities and client base as part of a wider effort to grow its custodian and fund servicing business.

SCBHK also aims to expand in to the Mandatory Provident Fund (MPF) and Occupational Retirement Schemes Ordinance (ORSO) schemes trusteeship business in Hong Kong.

RBC Investor Services Trust Hong Kong is an indirect subsidiary of Royal Bank of Canada, and an approved trustee authorised by the MPF Schemes Authority.

It provides a full suite of services, including trustee, fund administration, custody and transfer agency services to MPF and ORSO schemes, as well as other Hong Kong and offshore investment funds.

Commenting on the acquisition, Mary Huen, CEO of Hong Kong, Standard Chartered, says: "Hong Kong is a key market to Standard Chartered. We remain highly confident in the outlook as Hong Kong continues to grow as an international financial centre. The acquisition, announced today, demonstrates our commitment to investing in growth areas, enhancing our client offering, and supporting the development of the retirement planning industry."

Francis Jackson, CEO of investor services, RBC Investor & Treasury Services, comments: "Our strategy is to focus on North America and Europe – our key markets of growth. We thank our colleagues and clients in Hong Kong for their partnership, and remain committed to supporting each of them during the transfer."

OCC securities lending hits new high during December

Securities lending average daily loan value through OCC has increased 46.5 per cent YoY to US$147.7 billion for December 2021, representing a new record for the Chicago-based clearing entity.

Securities lending CCP activity rose by 49.8 per cent in new loans compared with December 2020, totalling 189, 217 transactions during December.

For December, exchange-listed cleared contract volume was the highest December on record, rising 12.4 per cent YoY to 850.7 million contracts.

For the year, aggregate exchange-listed cleared contracts hit a new high, with a 32.0 per cent rise in total futures and options contracts cleared during 2021 (9.93 billion) surpassing the previous record of 7.52 billion contracts established in 2020.

For options contracts, a 32.2 per cent increase in exchange-listed contracts to 7.47 billion for 2021 exceeded the previous high of 7.47 billion contracts cleared during 2020.

ISLA responds to SEC 10c-1, reflecting on SFTR experience

The International Securities Lending Association (ISLA) has published its response to the US Securities and Exchange Commission's (SEC's) proposals on transparency reporting under US Exchange Act Rule 10c-1.

Submitted on 7 January, ISLA's response highlights potential challenges with implementing the SEC 10c-1 proposal and uncertainties regarding the scope and potential impact to ISLA members.

The SEC has now received more than 100 submissions in response to its consultation request issued on 18 November 2021.

Recognising that some US-based firms and trade associations have also submitted their own feedback to the SEC, ISLA indicates that it has limited itself to high-level comment relating to the SEC 10c-1 proposal.

Specifically, ISLA members have highlighted challenges in the SEC proposal relating to the regulatory reporting timeframe, particularly the requirement to provide data within 15 minutes of a securities lending transaction being executed or modified. This contrasts with requirements under the Securities Financing Transactions Regulation (SFTR) in the EU, where SFTR reporting is required by the end of the business day.

This end-of-day requirement, they say, provides sufficient transparency to enable detailed regulatory oversight and onward public reporting of summary data in anonymised form.

Some firms do submit data events before end of day in meeting SFTR reporting obligations, ISLA observes, but this is managed on a best efforts basis and principally to facilitate the dual-reporting requirement in SFTR.

ISLA also flags up the role played by data aggregators and other data vendor platforms in supporting standardised and validated output in meeting this SFTR dual-sided reporting requirement. This community does not currently have an equivalent role in providing reporting services under the proposed 10c-1 design.

With up to 18 per cent of lender transactions in the US involving funds outside of the US, ISLA members indicate that a significant volume of lending activity may not be captured under the reporting obligations in their proposed form.

With this point, ISLA members request clarification around issues of scope and extraterritoriality relating to the proposed 10c-1 regulation, along with further information regarding how dual-listed securities will be treated under the proposed Rule.

Drawing on experience from SFTR, ISLA notes that it has hosted regular meetings over the past three years to find solutions to data issues — and this review process is still ongoing. Its members are still finding issues with simple fields and events such as timestamps, settlement fails, execution venues, maturity dates, fees and legal entity identifiers.

Market participants are also tackling questions arising from conflicts between the primary legislation, subsequent updates and clarifications, and market practice.

ISLA concludes that, with hindsight, SFTR implementation would have been faster had a market standard data representation of a securities lending transaction been in place at an earlier point in the SFTR implementation timeline.

This would have reduced the need for "years of consultations and clarifications", it would have reduced the adaptation burden for market participants and would have offered regulators a clean view of securities lending markets at an earlier point.

ISLA has been working with the International Swaps and Derivatives Association (ISDA), the International Capital Markets Association (ICMA) and with their respective members and other trade associations to set in place a consensus-derived market data standard, notably the Common Domain Model (CDM).

While ISLA acknowledges that a similar approach may be beyond the mandate of SEC 10c-1, it advises that the application of a market-derived data set should be considered to facilitate the transparency sought through 10c-1.

This may also be key in ensuring that 10c-1 aligns with the future development of the securities lending marketplace, embracing sustainable lending objectives and accommodating technology developments, including wider use of distributed ledgers and tokenisation, as these develop.

A more detailed evaluation of the SEC 10c-1 proposal, and industry feedback to the consultation process, will follow in SFT 295.

A time of reflection

SFT asked 12 firms about their priorities and expectations for 2022. With the advancement of technology and the adoption of new regulation at the forefront of many minds, participants are set to release new products and services as they enter the new year with a positive mindset and high hopes for the industry. Carmella Haswell reports

Weaving through the woods of a particularly unusual and unpredictable year that was 2021, the financial industry seems to have maintained high standards of risk management and service delivery, providing an optimistic light at the end of the tunnel. Prominent themes for 2021 were the challenges of adapting to new regulations, evolving technologies and the push for further integration of environmental, social and governance (ESG) principles.

Looking forward, SFT spoke to 12 different firms within the securities lending and finance market about their priorities and hopes for 2022. Mike Lambert, head of securities finance for Broadridge's securities finance and collateral management (SFCM) division, represented most people in the industry when he wished for a "healthier new year for the world and for the securities finance market". Samuel Riley, head of investor services and financing at Clearstream, echoed this sentiment as he hoped to put COVID-19 behind us and continue to drive Clearstream's agenda in the digital and data space.

It is perhaps unsurprising that a number of financial market participants prioritised improved customer services and business growth for the coming 12 months. CIBC Mellon's chief capital markets officer Rob Ferguson foretells a year of continuous improvement in technology, innovation and efforts by CIBC Mellon to bring their clients "the best of both worlds: local expertise and global capabilities".

According to Kaizen Reporting's senior regulatory reporting specialist for SFTR, Jonathon Lee, the firm plans to aid clients in keeping "the wolf from the door" and to maintain compliance with Securities Financing Transactions Regulation (SFTR), along with the broader spectrum of their money market and transaction reporting obligations.

More broadly, the survey reveals that the top two priorities driving firms' development agenda into 2022 are technology investment — with a quarter of respondents listing digital development as a focal point for their company — and excellence in client service. A third of survey participants indicated that delivering top quality services to clients will be key for the coming year.

Regulation

The challenge of managing regulatory adaptation kept the industry busy for the most part of 2021, with the main regulatory touch points being the implementation of Phase 5 of Uncleared Margin Rules (UMR), the Settlement Discipline Regime (SDR) component of Central Securities Depository Regulation (CSDR) and SFTR validation rules.

Commenting on the impact of this regulatory agenda, Kaizen Reporting's Lee comments: "The publication of new SFTR validation rules and schemas will continue to have a significant impact on our clients, particularly those with obligations to report under EU and UK SFTR, where any welcome harmonisation is offset by a two and a half month delay before the UK will adopt the same validation rules."

Despite SFTR having been implemented more than a year ago, Andrew Whyte, group president of post-trade services at FIS, agreed that this regulation casts a "significant shadow" over the securities finance and collateral market, with issues surrounding reporting results.

Almost half of respondents listed SFTR as having the heaviest regulatory impact on their securities lending and finance business, with several participants raising concerns about the challenges buy-side and sell-side firms will face from this regulation. Respondents indicated that applying two sets of SFTR validation rules between the end of January and 11 April is likely to be one of the biggest challenges for firms required to report under both regimes. Entering year three of SFTR reporting, regulators are likely to increase data quality scrutiny and have less patience with poor reporters.

Reflecting on the regulatory path for 2022, Val Wotton, managing director of product development and strategy, repository and derivatives services at DTCC, comments: "During 2022, there will be two key client-impacting regulatory deliverables from an SFTR reporting perspective. The first is the ISO Schema implementation — it is important that reporting entities and trade repositories are ready for the EU implementation date of 31 January 2022 in order to mitigate post-implementation issues."

Preparation will be key to firms facing regulatory changes this year, according to Anthony Venditti, head of equity finance at South Street Securities. Venditti predicts FINRA Rule 4210, involving implementation of mandatory margin requirements for To-be-Announced (TBA) transactions, specified pools, collateralised mortgage obligations (CMOs) and other covered agency transactions will be a big challenge for unprepared firms. He indicates that South Street's finance technology division Matrix Applications continues to refine its solutions to this compliance hurdle.

Michael Saunders, head of agency lending, Americas at BNP Paribas, predicts early 2022 will see the business formulating a strategic plan to address the pending SEC Rule 10c-1, where the US regulator will require lenders to report the terms of a securities lending transaction to a registered national securities association. This "will inevitably require swift action from both the industry, vendors and beneficial owners," he says.

For Sunil Daswani, global head of securities lending at Standard Chartered Bank, digitisation will be key to both regulatory and market endeavours to drive standardisation and efficiency. He indicates that securities lending is already advanced in the use of technology, with more than 90 per cent of securities lending trading volume now done through automated lending platforms, a shift that few would have anticipated 20 years ago.

ESG

Survey participants were unanimous that steps to promote ESG standards across the investment lifecycle will continue to have huge importance during 2022 and beyond. This has become an agenda item for every meeting, pitch and business review according to BNP Paribas' Saunders, as beneficial owners grasp and develop their internal ESG policies and relate those to their securities lending business.

Shareholders and fund managers are going the extra mile to demonstrate that they are meeting ESG challenges, says Broadridge's Lambert — and the COP26 summit in November has reinforced the importance of these efforts to build a greener industry. He adds: "[Share] recalls are especially impacted. Firms need to know when to recall and if they are going to be recalled. Yet more upcoming US legislation will likely oblige firms to keep more detailed records on recalls."

However, Radek Stech, CEO and founder of Global PSSL, says: "The positive drive has been overshadowed by some greenwashing claims in the broader sustainable finance markets." Greenwashing has become a top concern for financial firms in 2021, as explained by an SFT issue 292 feature titled 'Sustainable repo: finding the balance'. The claims of incorrectly classifying products as green investments, or double-counting green collateral, provides a reputational risk to firms.

To combat ESG issues and advance the movement, Nicole Giffuni, director of finance, human resources and business management at EquiLend, explains that the firm has enlisted the help of charity, diversity and sustainability committees that are continuing to tackle identified areas to improve ESG related practices in 2022.

Standard Chartered Bank's Daswani warns there is a long way to go in establishing a consistent way of measuring and comparing a fund's ESG performance at an industry level. Notably, the ESG priorities for each investor differs — with some focusing on carbon emissions while others look at corporate governance or other priorities — in turn, creating a challenge for those promoting sustainable finance objectives. Despite this, Daswani is seeing various initiatives emerge to develop ESG measurement and comparison tools, such as Standard Chartered's collateral filtering and ongoing monitoring service. This gives asset managers a level of assurance that their investors' ESG priorities are reflected from end-to-end through the securities lending process.

SFT asked survey respondents to highlight the main challenges confronting their firms in applying ESG criteria to securities lending and repo activity. Broadridge's Lambert says: "There are many ESG data providers but no prevailing standards. Everyone has a differing view of what ESG is and how it should be measured." Lambert believes that until organisations have market standardisation and consensus, the difficulty will lie in defining sustainability. He adds: "The combination of market forces and regulatory pressure is likely to drive towards more standardisation."

BNP Paribas' Saunders says clients wish to accept specific ESG compliant collateral as a new bucket of collateral takers. "For example, if an agent historically were to offer clients three collateral buckets of main index equities, G7 sovereigns and corporate bonds, the wider the collateral schedule, the greater the market opportunities and thus higher return," he adds. However, by adding a fourth bucket of ESG compliant collateral, this could potentially affect performance. "Additionally, for the concept of ESG compliant collateral to gather momentum, the counterparty community must be able to facilitate such segregation and the implementation of ESG scoring. Ultimately, liquidity of ESG compliant collateral will become the forefront of securities finance," explains Saunders.

Technology

Commenting on the role that will be played by technology innovation and process standardisation in driving greater efficiency within the securities finance industry, a number of firms predicted a growth during 2022 in digitisation, Distributed Ledger Technology (DLT) projects and tokenisation.

FIS' Whyte suggests tokenisation of assets and digitisation of collateral schedules will increase collateral velocity and further enhance optimisation opportunities, while enabling regulatory compliance and EFG drivers. "We see further steps being adopted by the market towards a DLT-based future for securities finance with the goal of increasing efficiency and transparency," he says.

CIBC Mellon's Ferguson indicates that 'the remote pandemic-driven environment' has accelerated long term trends of "digitisation, remote working, and the streamlining of operating models as organisations focus increasingly tightly on the areas where they can most deliver core value to clients".

For South Street's Venditti, building partnerships with fintech companies is essential for eliminating trading and post-trade inefficiencies. "Marrying entrenched legacy platforms with new, cutting-edge technologies will be key in increasing the efficiency of the current process," he says, indicating that Matrix Applications, the firm's fintech affiliate, is critical in driving South Street's standardisation and digitisation process flow.

For Matt Johnson, director, ITP digital strategy and platform management and industry relations at DTCC, prioritising the automation of the post-trade, pre-settlement process to lower the possibility of late settlement — with the Settlement Discipline Regime around the corner — is imperative advice to their clients. Johnson explains: "This means eliminating the use of faxes and other manual processes to confirm trades, as these are extremely error-prone and more likely to delay trade settlement, which could cause firms to incur settlement fines."

While on a journey to a fully-digitised future, FIS' Whyte says the inherent inefficiencies and friction in the current trading and post-trade infrastructure, combined with pressure on margins, will drive investment from technology vendors to adopt common standards as a means of achieving digitised, DLT based markets. "Performance data fully embedded in trading analytics, combined with regulatory initiatives such as the upcoming transparency rules in the US, will increase that momentum," he adds.

Respondents also noted that standardisation initiatives — particularly further refinement and adoption of the Common Domain Model (CDM) across securities lending, repo and derivatives transactions — will be key in reducing trade mismatches and easing the burden of post-trade reconciliations.

Coming soon

In responding to this SFT survey, securities finance specialists also took the opportunity to highlight some of the key technology projects that they have in the pipeline for 2022. Broadridge's Lambert, for example, says the company is working on its trade submission service for the DTCC's Securities Financing Transaction clearing service, along with further automation in recalls management and a securities finance order router. He also indicates that the company is collaborating with Asterisk Network, WeMatch, Bloomberg and Pirum on new interfaces and products.

With more releases on the way, EquiLend expects to add to its Premium Pulse product in 2022 and will be releasing a post-trade Settlement Monitor to facilitate settlement and help clients manage CSDR.

Meanwhile, FIS will be delivering its new FIS Global Inventory and Optimization Platform, as part of its series of next generation components, which it began to develop in early 2021. This platform will help maximise the inventory potential across lending, funding, cross-product collateral and regulatory capital requirements. "This follows the FIS Securities Finance Trading and Collateral Platform, which combines the capabilities of our Global One system with trading analytics, workflow and cross-product collateral management. The next phase brings this same modernisation to our Loanet suite of products," adds Whyte.

South Street plans to continue to expand its newly-formed equity finance team, with Matrix Applications aiding its expansion into equities securities lending. Venditti explains: "Rather than relying on just one vendor, we are exploring partnerships with best-in-class narrowly-focused fintechs for Order Management Systems, portfolio optimisation, settlement and clearance, and credit and risk management."

AccessFintech's CEO Roy Saadon explains that the firm's expansion from securities in the payments and loan products will continue across asset classes such as foreign exchange, derivatives and shared services such as margin, onboarding / KYC. AccessFintech aims to fix inefficiencies driven by partial data and move the market to predictive workflow.

Market dynamics and liquidity conditions

Collateral flexibility will be key in shaping lenders' ability to optimise securities lending revenues during 2022, according to survey respondents. For Standard Chartered Bank's Daswani, this has been a byword in the securities lending industry for some time. "This has meant an increasing focus on non-cash collateral, particularly in the form of government securities and main index equities, in addition to the more traditional cash collateral programmes, which is becoming a prerequisite for those lenders looking to optimise programme performance and revenue generation," explains Daswani.

He predicts that this trend will continue as borrowers set their focus on managing collateral inventory and sourcing their loans from more flexible lenders. "Equity collateral will become increasingly prevalent in this regard, and we see this as a key tool in the lender's armoury," comments Daswani. He predicts that other forms of non-cash collateral, including ETFs and ADRs, are likely to be deployed from a wider range of borrowers, as well as debt instruments outside of the traditional government issues.

Mike Norwood, global product owner at EquiLend adds: "While the crystal ball is notoriously foggy, supply will continue to increase as asset owners look for incremental revenue and continue to see the value to be derived from lending. Demand will remain robust for high-quality assets that can be used for collateral, as well as for the specials, evidenced and driven by the volatility and associated revenues in the meme stock and special-purpose acquisition company (SPAC) space. Peer-to-peer, clearing (broker-to-broker and bank-to-broker) and automation will remain hot topics."

Inevitably, the COVID-19 pandemic has had a significant impact on the performance of securities lending and financing markets since March 2020 and has also prompted industry participants to review how they manage their business strategies.

"The movements across all asset classes spurred unease among market participants, with several participants opting to temporarily freeze or withdraw from a lending programme," says BNP Paribas' Saunders. "The need for clients to obtain access to liquidity became paramount, with several clients leveraging their securities lending programme to either raise liquidity or lean on their agent to assist them in managing their excess liquidity, post the coordinated global central bank easing campaigns."

Adapting to this change, FIS' Whyte explains that the company has seen a peak in interest in managed and hosted services as organisations pivot toward remote working. He notes that this has helped organisations to gain confidence in remote service management and outsourcing certain technical and business processes to third party providers. This, in turn, has boosted activity around FIS' Business Processing as a Service (BPAAS) offerings and footprint.

EquiLend's Norwood says the global COVID-19 outbreak was managed relatively smoothly by the securities lending industry. However, it did reinforce the need to have a strong foundation of technology and business continuity. He says: "As strong NGT volumes have continued — we saw a new record quarter in Q3 2021 and a record fixed income trading day in March 2021 — we are further investing in our platform to ensure we continue to offer our clients a consistent user experience. We realise that easy-to-use technology solutions are going to become even more important for clients looking to monitor activity and keep their finger on the pulse of industry trends. This is driving our product roadmap and has largely informed our decisions around exciting, strategic platform improvements to come in 2022."

While AccessFintech confirms that volume spikes and workforce restrictions placed strain on the firm's systems, it was able to manage this by leveraging shared cloud resources on capacity issues and shared workflow on reducing workload on staff. Saadon explains: "Operational efficiency is an eternal and universal quest across the finance sector, with asset managers, custodians and buy-side firms alike, continually seeking new ways to create lean environments, aiming to do more with less."

As an endnote to a challenging two years for the financial services industry CIBC Mellon's Ferguson concludes: "Our response to the pandemic was underpinned by our business continuity programme, which supported the stable delivery of products and services to our clients throughout this pandemic. We continue to maintain open lines of communication and collaboration with our employees, clients, vendors and other stakeholders to work through these challenging times together."

Fran Garritt
Director, Securities Lending and Global Markets Risk, RMA

A focus on risk reduction and adding value

Risk Management Association's Securities Lending Council provides a key resource for the industry and its regulators to ensure transparent and well-functioning securities lending markets. RMA's Fran Garritt tells SFT where it will be focusing its attention during 2022

What were the standout events and developments that most shaped the securities lending industry during 2021 from the RMA's perspective?

There were two main themes shaping our industry in 2021. The first was market-related events around meme stocks at the beginning of the year, which dampened directional activity. The second was a series of rule proposals from regulatory bodies which will have implications for securities lending markets.

> *"Alongside more general issues like ESG, we expect to engage with the new appointees of the Biden administration's agencies to ensure fair and balanced development of the market and application of the law"*

The market benefited from multiple, related corporate action events — as has been noted in a wide range of industry forums. The trading activity around GameStop, combined with rising equity markets, seemed to crowd out directional activity away from single name stocks into more sector-wide instruments such as ETFs. However, a surge in special-purpose acquisition company (SPAC) issuance was a bright spot for lending activity, not only for directional bets but also to facilitate settlement and hedging against warrants to early investors.

2021 also prompted a new focus on our industry from a regulatory perspective, specifically around proxy (Form NP-X) and general securities finance (10c-1) disclosures. Both of these regulatory initiatives were introduced in the latter half of 2021 and will be a key focus for our Association going forward. The council has submitted comment letters on both proposals, and we await feedback from the US Securities and Exchange Commission (SEC). In addition to these regulatory items, the council is also focused on the impact of the T+1 settlement regime and what our members would need to achieve this aspirational target.

What were the primary risks and points of inefficiency confronting your members coming into 2021? How well has the industry managed these challenges?

The US securities finance market is highly efficient, so operational risks are already well mitigated. This was illustrated by the market's ability to easily adapt to the volatility seen throughout the first half of the year. We are continuing to monitor the regulatory and settlement items noted above, as these will have a direct impact on our industry.

What has been top of the RMA's priority list in terms of regulatory engagement during 2021?

Market events of 2020 and 2021 have kept our member workstreams busy over the past year. Following the extreme market volatility experienced in Q1, our Operations and Technology subcommittee has been examining the impact on operational processing, from daily mark-to-market activity to a potential move to T+1 settlement in the US. The pending implementation of the Central Securities Depositories Regulation (CSDR) in Europe in early 2022 has also been a focus for the group.

Our Fintech subcommittee has published white papers covering tokenisation and ESG data. We also formed an ESG subcommittee earlier this year. The group has been focused on education and best practices for integrating ESG considerations into securities lending programmes. Finally, our Legal, Tax and Regulatory subcommittee has concluded the year by evaluating and responding to a number of new SEC rule proposals that impact securities lending, including the ones I mentioned earlier — proposed Rule 10c-1 for transparency of securities loans and proposed amendments to Form NP-X for enhanced reporting of proxy votes.

The securities finance industry has experienced two years of high market volatility and liquidity fluctuations, following the Q3 19 US repo spike, impact of the COVID-19 pandemic and steps to drive post-COVID recovery. What are the key lessons learnt from this period?

The key lesson learnt is that the industry's investments in technology and automation paid off during times of significant volatility. Since the 2008 global financial crisis, there has been significant investment in infrastructure from industry vendors as well as our members. This investment helped to mitigate the impact of the pandemic and has allowed member firms to concentrate resources on measures for adding value and risk reduction — as opposed to utilising resources to account for an increase in volume. This reassuring development reinforces the need to continually reinvest in our industry — as highlighted by the formation of RMA's Financial Technology and Automation Committee. This committee will be integral in educating and navigating our members through a new frontier.

The RMA is one of five regional trade associations to join GASLA in September. What are your objectives as a founder member?

RMA has a longstanding collaborative relationship with the other regional securities lending associations. Most of our members are global firms and active participants in multiple regional associations. In speaking with our members, it became clear that certain industry initiatives are better viewed with a global lens and that duplicating efforts within each regional association was less efficient and less impactful than working together. The Global Alliance of Securities Lending Associations (GASLA) was formed, in part, as a result of this realisation. Through GASLA, we can share ideas and resources to deliver a consistent and unified message on matters impacting our industry across the globe. GASLA's initial work has focused on ESG considerations within securities lending. We look forward to continuing our work on this and other topics with the collaborative working group in the new year.

What is top of the RMA's working agenda moving into 2022?

The RMA's agenda in 2022 will remain the same as it has been for the past few years — to serve as a resource for the industry and its regulators to ensure a transparent, well-functioning market. Alongside more general issues like ESG, particularly including climate change, we expect to engage with the new appointees of the Biden administration's agencies to ensure fair and balanced development of the market and application of the law.

For example, we believe that the final stages of revisions to the capital and liquidity framework, which began shortly after the 2008 financial crisis, may be proposed in the US this year. We look forward to working with the banking agencies to ensure these revisions are applied appropriately to our industry. We are also optimistic that efforts can be finalised to expand the types of collateral that borrowers may provide and that lenders may accept, thereby delivering a more efficient market. Finally, the SEC is always focused on disclosure and transparency. We aim to ensure that the market receives the appropriate information without imposing undue costs and burdens on its participants.

Beyond this, the RMA retains a focus on providing education and networking opportunities for the industry. Shifting from traditional in-person conferences to virtual events has allowed us to stay connected with members and to keep them up to date on the latest developments, despite the challenges presented by the COVID-19 pandemic over the past two years.

To that end, RMA's Securities Lending 2022 Outlook will take place on 1-2 February. The event will bring together market participants to discuss topics including transparency, legal and regulatory updates, and ESG concerns. While this event will remain virtual, we are hopeful for a return to in-person events at some point later in the year.

Testing the temperature of the repo market

Alexander Westphal, ICMA director, market practice and regulatory policy, speaks to Bob Currie about repo market performance, concerns over collateral shortages and the European Repo and Collateral Council's working agenda for 2022

What were the standout events and developments that, from the ERCC's perspective, most shaped repo markets during 2021?

2021 has been an eventful year, but one key theme that I would highlight is repo market transparency, as the industry has continued to make further advances on this front.

The transaction reporting regime under the Securities Financing Transactions Regulation (SFTR) was implemented in four phases, with the first beginning on 13 July 2020 and the fourth and final phase going live on 11 January 2021. In addition to our detailed work with members to implement and improve SFTR reporting, International Capital Market Association (ICMA) has been aggregating the public data points that trade repositories are required to release under SFTR. We publish these statistics week by week in a more accessible form on our website. Based on those figures, in September, ICMA published a report which looks in more detail at the key findings and trends from the first full year of SFTR reporting.

On reflection, the industry has engaged in an impressive collaborative effort in implementing SFTR. This is an ongoing process and the ERCC's SFTR Task Force continues to meet periodically to review new regulatory guidance and work through a long list of reporting issues that firms are still facing. All of these discussions ultimately feed into the ERCC's detailed best practice recommendations that we developed in relation to SFTR reporting.

The ERCC also continues to shine a spotlight on the repo marketplace through the bi-annual European Repo Market survey. In 2021 we marked the twentieth anniversary of the Survey which was just released in its forty-first edition. More recently, ICMA has also extended the exercise to the Asia-Pacific region, having just released the second edition of the Asia-Pacific Repo survey which we are publishing in collaboration with the Asian Securities Industry and Financial Markets Association (ASIFMA).

What were the primary risks and points of inefficiency confronting your members coming into 2021?

In terms of regulation, an important focus for ICMA has been to help the industry navigate the uncertainty surrounding the implementation of the mandatory buy-in (MBI) rules under the Central Securities Depositories Regulation (CSDR). The MBI regime has been a major concern for the industry and ICMA has long been arguing against the implementation of the current rules which we believe to be flawed and potentially damaging for market liquidity and stability. Not only would it discourage market-making more generally, but indirectly it would be a significant deterrent to lending out securities. ICMA was therefore very pleased with the decision by EU co-legislators not to implement the MBI regime in February 2022 and ESMA's following de-prioritisation letter published just before Christmas which asks national authorities not to enforce mandatory buy-ins. ICMA, along with other trade associations, issued a complementary statement to confirm our understanding of the status quo in relation to MBIs.

That said, other measures, in particular cash penalties will still go ahead in February as planned and we are supporting members in their implementation efforts, having established a specific workstream to focus on cash penalties.

Beyond the concrete implementation challenges, we also believe that CSDR provides a good opportunity for the industry to come together to closely examine existing settlement processes and to take additional steps to improve settlement efficiency in Europe. Working in collaboration with other industry associations, ICMA launched a focus group to assess priorities for improving settlement efficiency, including the use of partial settlement, shaping of instructions, and auto-borrowing. We are about to release a white paper which recaps the key findings and recommendations.

Besides regulatory considerations, there has been a lot of focus on general repo market conditions and liquidity, in light of the ongoing COVID pandemic but also the impact of ongoing asset purchases by central banks. In April 2020, the ERCC published a detailed report on the performance of the repo market during the peak of the market stress caused by the pandemic, which showed that repo markets remained relatively stable and performed efficiently in a turbulent market. In 2021, we saw a return to calmer waters, but more recently we have been monitoring renewed concerns related to potential collateral shortages that were building up in the run-up to the year-end. As in previous years, we will publish a short report in January to assess how year-end conditions and financial reporting deadlines have impacted the repo market.

In a nutshell, what we observed with the 2021 year-end was that while trading was relatively orderly over the turn itself, levels reflect collateral supply bottlenecks as well as reduced capacity for intermediation. Core sovereign repo traded at the most expensive levels since the infamous 2016 year-end, and non-core printed at post-euros lows. It is also clear that many participants were positioning for year-end from as early as October. One could argue that this is not reflective of a healthy, functioning market.

Beyond the above, what has been top of the ERCC's priority list during 2021?

One important topic that I should also mention is sustainability. While ICMA as a whole has of course played an important role in developing and promoting the sustainable bond market, with the green, social and sustainability bond principles, from a repo perspective the topic is still relatively new. But in 2021 we have definitely seen some momentum building within the ERCC. In April, we launched a market consultation to review different approaches to sustainable repo and the summary findings of this consultation were published in a follow-up paper released in September. Subsequent to the consultation, we have launched a new task force on repo and sustainability as a joint initiative of the ERCC and ICMA's sustainable finance constituency.

Which locations offer strong opportunities as emerging and frontier markets for repo activity? How is ICMA's ERCC supporting this activity?

As the name implies, the ERCC has traditionally focused on the European repo market. That said, we are keen to provide opportunities for ICMA's global membership to actively engage in our repo work and this will be a priority for 2022. Many of the topics that we deal with are of course already inherently global — just take the Global Master Repurchase Agreement (GMRA) as an example which is employed extensively around the world, bringing standardisation to contracts and documentation for repurchase agreements.

We have also been actively involved in efforts to help develop repo markets in many emerging markets, working directly with authorities and participants in those markets, but also through a number of partnerships. For example, we are closely collaborating with Frontclear, a financial markets development company, with whom we recently held a series of webinars to discuss opportunities for the development of repo markets in Uganda, Nigeria and Ghana. ICMA also offers a comprehensive educational programme which is global in coverage. This, again, is an important mechanism for supporting the development of repo activities around the world, including in less developed markets.

What is top of ICMA ERCC's working agenda for 2022?

As mentioned, repo and sustainability will definitely be a prominent topic, as our new taskforce on repo and sustainability starts to meet, looking at possible standards and best practices to clarify the role of repo in sustainable finance.

Another important focus that I haven't mentioned yet is Fintech and electronification. ICMA is following closely the increasing importance of technology in repo markets and is pro-actively driving this agenda. The Common Domain Model (CDM) project, for example, builds on collaborative work with the International Swaps and Derivatives Association and the International Securities Lending Association to extend the CDM to repos and cash bonds. The first phase of the project has been implemented during 2021 and the development will continue in 2022. Another example in this area is the GMRA Clause Library and Taxonomy project which ICMA launched in October and which will continue during the coming year.

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From a regulatory perspective, CSDR and SFTR will continue to keep us busy. We will closely monitor the imminent implementation of the CSDR cash penalties in February and its impact on settlement efficiency in Europe. But we will actively contribute to the upcoming discussions around the review of the mandatory buy-in rules, as we are waiting for the proposals from the European Commission which should be released around May. Besides, there is of course a whole host of other regulatory developments with important implications for the repo market which we are closely monitoring. This includes the ongoing review of prudential requirements in the EU, which involves various elements that are extremely relevant from a repo perspective. So overall, we can certainly expect another interesting and busy year.

New Year, New Rules, Different Outcomes?

Regulators will push through a full agenda in 2022 designed to tighten market behaviour and to improve standards. But there are no new rules to encourage caveat emptor, or let the buyer beware, observes FIS's David Lewis

It might seem unbelievable to some, but property prices can fall as well as rise. Among many memories from the most recent housing price crash here in the United Kingdom, there is one that draws parallels to issues that are now affecting the stock market and, by extension, the securities finance industry. All markets experience boom and bust cycles, whether that is equities, houses or COVID-lockdown puppies. Getting caught on the wrong side, selling or buying at the wrong moment can be painful. The recollection is of a couple suing a housing developer for losses incurred on an apartment they had purchased "off plan" (i.e., it had not yet been built but they had contracted to purchase it). Between the contract signing and completion, the market popped, resulting in a property worth significantly less than they were due to pay for it. Cue the legal action, blame apportionment and disgruntled faces in the paper.

Jump forward to 2021 and the GameStop episode. Many thousands of investors with brokerage fee free accounts are purchasing the shares of a brick-and-mortar PC game shop chain, ostensibly to punish the markets for some nefarious activity designed to keep them from making millions of dollars. However, some of those on the bandwagon were caught on the wrong side at the wrong time and lost significant sums of real-world money. There have been many articles regarding the gamification of the financial markets, and very few if any of them would have argued about the benefits of wider market access to everyone that wants to take part. What does seem to be lacking, however, is the explanation to those new entrants that “game over” in financial markets doesn’t simply mean that when you run out of money you can restart from the beginning, or from when you last “saved” the game.

To level the playing field between professional and retail market participants, the US Securities and Exchange Commission (SEC) has, among other initiatives, proposed a new disclosure rule for securities lending transactions: 10c-1. As a data provider in this space, FIS is, of course, supportive of market transparency but education is also vital to ensure appropriate use of the data available. The consultation period for this new rule has been very short, but has elicited some interesting results from a broad range of contributors. Some of these have rekindled old and inaccurate grievances, such as the claim from an esteemed professor of molecular and medical genetics that stock prices of innovative companies have been driven down by “naked shorting and market manipulation.” He does, however, acknowledge that “another PhD would be required to understand what happens when you buy a stock and place it in a brokerage account.”

Reading between the lines of this professor’s email to the SEC, it could easily be imagined that he has invested in a leading-edge biotech firm with a wonderful idea that sadly failed, while short sellers benefitted from the resulting fall. This complaint does not, however, present evidence of a conspiracy to “ruin those innovative companies” but instead shows a misunderstanding of risk and valuation. Shorting behaviour around such biotech firms and their binary performance has been the subject of previous articles (so it won’t be repeated here), but they can represent high risks to investors, long or short. Should this company have struck gold with their innovation, it is likely that the professor in question would have been pleased with an astute stock pick but less likely to be calling the SEC to congratulate them on the management of a true and fair market. Similarly, it is likely the apartment purchasers would have been toasting their strategy had the market not gone against them.

Asset pricing

The understanding of asset pricing is addressed in a long and thoughtful commentary delivered to the SEC by another professor, this time a finance professor with an impressive and relevant resume. The 12 pages of analysis and thought can be summarised into a short list of logical suggestions. The first is that all market participants must understand the depth of the book for a given security, how it works and how market prices are derived. The second, that the data to support that understanding should be accessible to all for a reasonable fee, aims some criticism at the previous administration’s (Redfearn/Cayton) plan for exchanges to sell data to consolidators and the confusion that followed.

The conclusion of these observations, that poor understanding can lead to poor decision making cannot, by any measure, be described as revolutionary. In this context, the concerns expressed by the professor are clear: poor understanding leads to ill-conceived reforms that may do more harm than good. The concerns raised by the highly educated medical professor led him to state that he “[has] no faith in the traditional stock market”. But will rule 10c-1 make that better, or is it there to satisfy and pacify those vocal critics of the financial markets?

Few would suggest that regulations are not needed to ensure orderly markets and to keep maleficence at bay from those that would take advantage — but there is also an argument for responsibility and ownership of informed decision making. The rise of ESG principles brings opportunities to support investments in socially and environmentally positive industries, investments that are for the long term both in terms of the monetary and environmental applications of the phrase. Perhaps it is time for such principles to be applied to the development and application of regulations? Regulations are rarely described as rushed — but when they are, there is significant risk that they harm more than they benefit, particularly when there are highly charged political influences at work.

There is a very full agenda for regulators and market participants in 2022, affecting the securities finance and collateral management industry directly as well as indirectly through other sectors of the market. These include updates to the complexities of SFTR, the application of Phase 6 of Uncleared Margin Rules and two rules developed in 2021 that apply in 2022 intended to address “undue speculation” (Rule 18f-4) and the management of “risks associated with fair value determinations” (Rule 2a-5). Together they represent a blend of improved margin and collateral cover (for when things really go wrong), increased transparency for regulators and stakeholders as well as improved risk controls to ensure providers use proven methods of asset valuations. All of these, and others on the slates of the SEC and other regulators for 2022, are clearly aimed at tightening market behaviours and improving standards. Unfortunately, however, there do not appear to be any new rules proposed around the principles of caveat emptor – let the buyer beware – and the requirement to take responsibility for when you buy or sell your shares or your home.

Latest industry appointments at BNY Mellon, FIS and Sionic

BMO Capital Markets has announced senior hires in an effort to build the firm's US prime brokerage business.

Thomas Guagliardo and Robert Luzzo have joined the firm's New York office as managing directors, where they will report to Robert Yeung, head of global equities and financing solutions.

Guagliardo will co-head global prime finance with Jordan Lupu, bringing two decades of experience to the role.

He previously spent 23 years at BNP Paribas as global head of prime finance sales trading, based in France.

Luzzo will head global prime sales after a 22 year career with BNP Paribas, where he was head of client service and relationship management, Americas.

BMO Capital Markets has operated a prime brokerage business in Canada for more than 10 years. The company says the addition of US capabilities supports a North American solution for its global clients.

BNY Mellon promotes John Templeton to global head of securities finance sales and relationship management

Based in New York, Templeton brings more than 20 years of experience to the role, having previously spent the past two decades at BNY Mellon.

Prior to this new role, he was head of financial

Kapiteijn back in securities finance with CME Group

Danny Kapiteijn joins CME Group as manager of BrokerTec Products after leaving the securities finance sector in 2020.

Based in Amsterdam, Kapiteijn brings more than 20 years of experience in the securities lending and finance sector to the role, where he will support the development of a number of BrokerTec products including BrokerTec Quote, a dealer-to-client request for quote trading platform for European and US repo markets.

He will report to executive director and head of European repo and BrokerTec Quote, Kate Karimson.

In May 2020, Kapiteijn left the securities finance sector when he joined Holland's Ministry of Finance as a senior associate in treasury and debt management.

Prior to this, Kapiteijn held several senior positions during the nine years he spent at ABN AMRO, most recently as a senior securities finance trader.

He also served as a securities lending trader for Fortis Bank N.V where he focused on US and Canadian markets for three years.

The announcement follows a number of senior hires including director of BrokerTec Products Matthew Dexter, who joined the firm's London office in September 2021, to focus on supporting and growing the dealer-to-dealer central limit order book on repo.

Additionally, BrokerTec hired executive director J.B Wakefield in December 2021. He is based in New York and will aid the development of BrokerTec's global offering for trading US treasuries.

institutions, intermediaries and market groups at BNY Mellon.

Michael Daly has left US private investment bank Brown Brothers Harriman after 13 years with the firm.

Entering the company in 2008, Daly began as a securities lending relationship associate before promoting to relationship manager in 2013.

Michael Maddox has announced his departure from FIS.

Based in New York, Maddox joined FIS in 2014 as a sales consultant, where he provided solutions across risk, collateral management, optimisation and securities finance.

Maddox was later promoted to senior sales executive, where he drove revenue growth through fintech solutions covering securities, derivatives and tax to new and existing partners.

In an online statement, Maddox wrote: "It has been an incredible eight years of growth and success. It has been a terrific environment for professional development, contributing to the design of great solutions, and working with top-notch colleagues. I'll forever be grateful for the experience that FIS gave me and will always highly recommend it as a great place to work."

Brian Leung has announced his departure from Deutsche Bank.

Leaving his position as APAC head of trading at agency securities lending, Leung has decided to seek other opportunities which he will soon reveal.

In an online statement, he wrote: "Thirteen years is a long time to spend together with me, but I say with mixed emotions that today is my last day at Deutsche Bank. I swore I would avoid using cliches but it was my first job and the people I've met and had the pleasure of working with were part of some of the most rewarding experiences in my life."

Leung began his career at Deutsche Bank in 2008, where he joined as a graduate trainee at the company's Hong Kong office.

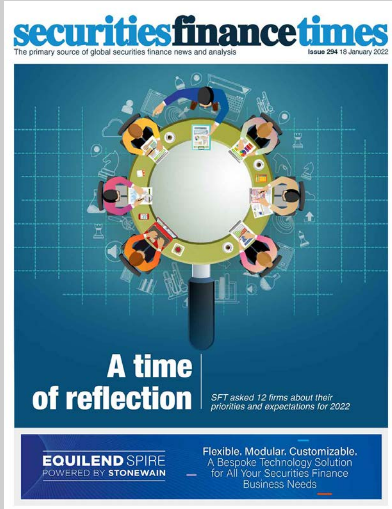
Sionic, has appointed Matthew Davey as a partner within its asset management practice.

Davey is a veteran of securities servicing and fund administration, having held senior roles in major firms across London, Boston and Paris.

Before joining Sionic, Davey served as global head of business solutions then managing director, head of coverage, marketing, solutions UK at Société Générale Securities Services, following roles at Invesco Perpetual, State Street, HSBC and J.P. Morgan.

Paul Sutton, Sionic managing partner and head of Sionic's asset management practice, comments: "Matt is highly regarded, as well as high profile, with extensive experience across operating models, technology, data and artificial intelligence. He also knows the service provider community well and has a real vision for the future and a passion for innovation. We are very fortunate to have attracted him to Sionic as we begin the next chapter of our own exciting growth."

Commenting on his new role, Matt Davey says: "I am really looking forward to applying my breadth of perspective as well as my technical experience to my new role. I know many of the Sionic team well already and am looking forward to meeting the wider team."



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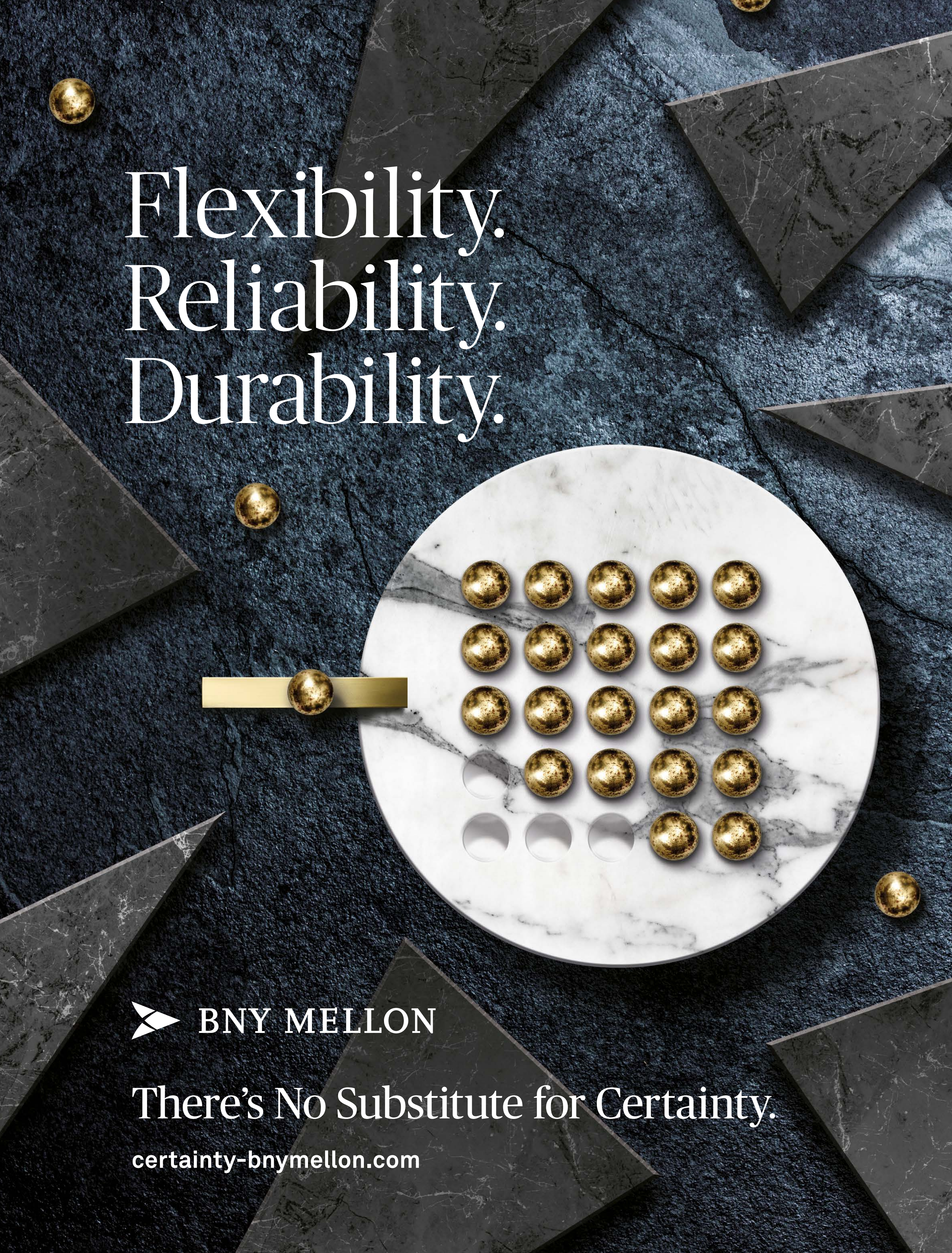
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