securitiesfinancetimes

The primary source of global securities finance news and analysis

Issue 295 01 February 2022

Tackling settlement failure in securities finance

EquiLend's head of post-trade Iain Mackay speaks to Bob Currie about the release of Settlement Monitor and how the company is helping clients to adapt to the settlement discipline regime under CSDR

EQUILEND SPIRE
POWERED BY STONEWAIN

Flexible. Modular. Customizable.
A Bespoke Technology Solution for All Your Securities Finance Business Needs

OCC THE FOUNDATION FOR SECURE MARKETS®

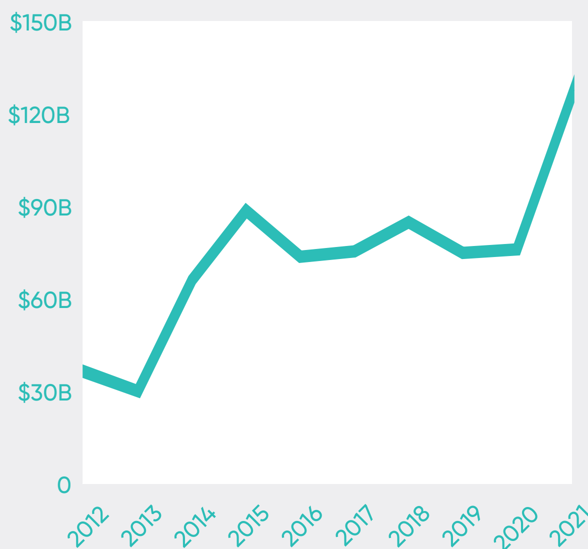
OCC Stock Loan Programs

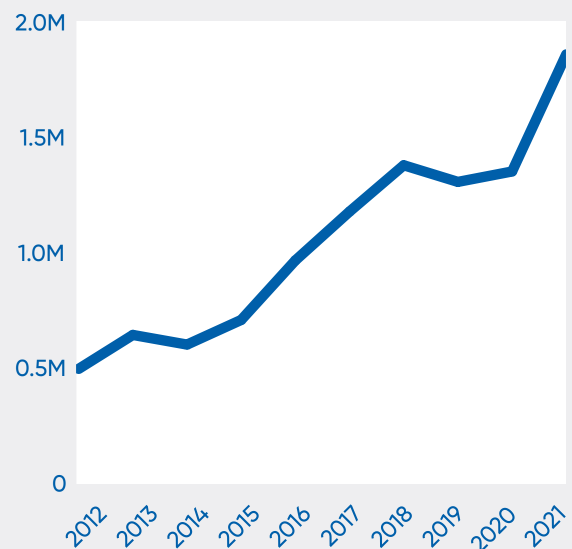
Key Benefits

- Counterparty disintermediation
- Expanded credit and trading allowances for cleared activity
- Risk weighted asset savings of approx. 95% compared to uncleared stock loans
- Margin offset
- Automation and streamlined operations

79 HEDGE LOAN PROGRAM MEMBERS

125B AVERAGE DAILY LOAN VALUE AT YEAR END 2021





For more information about OCC Stock Loan Programs, visit theocc.com

©The Options Clearing Corporation 2022. All rights reserved.

Eurex offers cross-margining of swaps and futures to buy side

Eurex Clearing has enhanced its cross-product margining algorithm, enabling buy-side firms to offset margin for fixed-income futures and interest rate swaps cleared through its platform.

The Deutsche Börse-owned clearing entity confirms that Societe Generale and BNP Paribas are now offering cross-product margining services to clients and that the first multi-strategy hedge fund, with multi-billion assets under management, is now taking advantage of this facility.

Given the growing liquidity in euro clearing at Eurex, large asset managers are now considering the possibility of bundling their portfolios across listed and OTC interest rate business, reaping the benefit of margin and capital efficiencies, notes the Frankfurt-based clearer.

Eurex says that it recently adjusted its cross-product margin algo, removing maturity constraints and enabling optimisation across the full euro yield curve. It has also improved access to its margin calculator, which is now available via application programming interface (API).

Matthias Graulich, member of the executive board at Eurex Clearing, says: “To assist regulators with their continued calls to reduce euro swaps exposure outside of the EU, cross margining is another piece in the puzzle to grow our share in euro clearing.

“While the functionality has been available on the Eurex side for a while, the strong and robust euro swaps liquidity picture has triggered client demand and implementation on the clearing member side, making this functionality available to their clients.”

Societe Generale’s head of prime brokerage clearing for EMEA Jamie Gavin adds: “Societe Generale is pleased to be at the forefront of continued innovation within the futures and cleared OTC markets, offering cross product margin capabilities to our clients and enabling significant margin and capital efficiencies that they bring.”

Inside this issue

Lead Story
3 **Eurex Clearing offers cross-margining of swaps and futures to buy side**

Latest News
6 **State Street's securities finance revenues up 16% YoY**

Latest News
10 **Deutsche Börse expands analytics suite with Eurex Open Interest Insights**

Latest News
12 **European repo market at 2021 year end: an orderly but expensive turn**

16
Cover story
Tackling settlement failure in securities finance
EquiLend's head of post-trade Iain Mackay speaks to Bob Currie about the release of Settlement Monitor and how the company is helping clients to adapt to the settlement discipline regime under CSDR

20
APAC lending
Asia Pacific securities lending: Positioning for a strong 2022
Asia-based securities lending specialists reflect on the performance of APAC markets during 2021, the lifting of short-selling bans in Malaysia and South Korea, and prime opportunities for growth of lending activity in 2022 and beyond

34
Backtesting
UMR backtesting: here to stay
A Cassini Systems panel discusses all things backtesting as the Regulatory Technical Standards on Standard Initial Margin Model Validation come into effect in September 2022. Carmella Haswell reports

40
Returns to lendable
IHS Markit: Reflections on 2021 securities lending returns
Paul Wilson, managing director and global head of securities finance at IHS Markit, finds that global securities finance revenues increased year-on-year, sustained particularly by equity values and returning demand in APAC as markets removed short-selling bans

Your Specialists in Securities Finance

Consulting Services
✓ Strategic Consulting
✓ Project & Program Management
✓ Business Analysis & Consulting
✓ Technical & Infrastructure Consulting
✓ Product Architecture & Design
✓ Software Development
✓ Blockchain Development

Software Solutions
► C-One Securities Finance In-house/Platform Hybrid Solution
► C-One Connectivity Standard Market Interfaces
► C-One RegReporting Solutions SFTR | CSDR | MiFID
► C-One Blockchain/DLT Platform

Efficient. Innovative. Modular. | www.comyno.com | contact@comyno.com

In the search for alpha, you need more than just a lending agent.

RETURNS

You need complexity made simple. Uncertainty made clear.
Decisions made with confidence.

MADE

Above all, you need a trusted partner like State Street.

SIMPLE

Our lending program is the most innovative in the world.[1] We give you easy access to the intelligence and lending tools you need to make the right moves and unlock growth.

STATE STREET®

statestreet.com/globalmarkets

3390559.1.1.GBL ©2021 State Street Corporation. For informational purposes only. Securities lending services are provided through State Street Global Markets, the marketing name and a registered trademark of State Street Corporation, used for its financial markets business and that of its affiliates. Products and services may not be available in all jurisdictions.
[1] *Global Investor* ISF Survey 2020 – Securities Finance Agency Lending named Most Innovative Lender

Korean repo volumes surge in 2021

The Korean Securities Depository (KSD), a triparty repo agent, has announced a dramatic surge in repo trading volumes in 2021.

Volumes increased by 5.3 per cent YoY to US$19.6 trillion in 2021, according to KSD's data on opening settlement.

The new record high represents a 75 per cent increase from US$11.2 trillion in 2017. The daily average trading volume has risen by 18.8 per cent YoY to US$106.0 billion in 2021, which is a 107 per cent increase on US$51.1 billion daily ATV in 2017.

By the end of 2021, the repos traded among institutions in Korea were 12-fold larger than call loans.

Overnight repos make up the largest share at 68.2 per cent, USD 72.5 billion of the entire trading volume, while the rest is composed of longer-term transactions.

The growth was largely driven by the excess liquidity during the COVID-19 pandemic and the sizable purchase and sale of government securities under open market operations.

State Street's securities finance revenues up 16% YoY

State Street's securities finance revenues have grown 15.9 per cent YoY, rising to US$102 million in Q4 2021.

The bank indicates that this was driven by higher securities loan balances and mandate wins in its Enhanced Custody service.

However, securities finance revenues contracted 3.8 per cent month-on-month, largely accounted for by lower specials revenues and agency spreads compared with the November reporting period.

Assets under custody and administration (AUC/A) have grown by 12.6 per cent to US$43,678 billion YoY, driven by strong client flows and net growth in new business.

Aggregate AUC/A has also risen slightly quarter-on-quarter, up 0.8 per cent from US$43,337 billion recorded in Q3 21.

State Street's total revenue has increased by 5 per cent YoY to US$3.05 billion in Q4 21, with total fee revenue contributing US$2.51 billion of this number.

COMPLIANCE IS A BEAST.
We help you tame it.

deltaconX AG
Hertensteinstrasse 51
CH-6004 Luzern, Switzerland
www.deltaconX.com

EMIR REMIT DFA FinfraG MiFIR/MiFID II SFTR

... to the next level.

Let Securities Lending take you...

Make idle assets work harder with Securities Lending. Behind the scenes, we generate low-risk additional revenues on your securities. The only impact on your business is enhanced performance figures, and today, every basis point counts.
We offer tailor-made agency, principal and lending solutions with remote access to suit your precise needs.
CACEIS, your comprehensive asset servicing partner.

www.munier-bbn.com

Contact:
Dan.Copin@caceis.com

www.caceis.com

caceis
INVESTOR SERVICES
solid & innovative

Net income for the company has climbed 30 per cent YoY to US$697 million. However, quarter-on-quarter, net income has dipped 2 per cent from its US$714 million figure in Q3 2021.

State Street's Common Equity Tier 1 ratio (standardised approach) improved 1.9 per cent to 14.2 per cent YoY, reflecting higher retained earnings and the issue of US$1.9 billion of common stock in Q3 2021 to finance the proposed acquisition of Brown Brothers Harriman Investor Services .

BlackRock sec lending full-year revenues down for 2021

BlackRock's securities lending revenue generated during the fourth quarter has grown year-on-year, rising to US$136 million for Q4 21 from US$131 million in Q4 20.

However, the US-headquartered asset manager has seen its securities lending revenues contract quarter-on-quarter, falling 11 per cent from the US$152 million generated during Q3 21.

For the 12 months of 2021, securities lending revenue fell 15 per cent YoY to US$555 million.

More broadly, BlackRock had a strong quarter from an asset gathering perspective, recording US$212 billion in quarterly total net inflows.

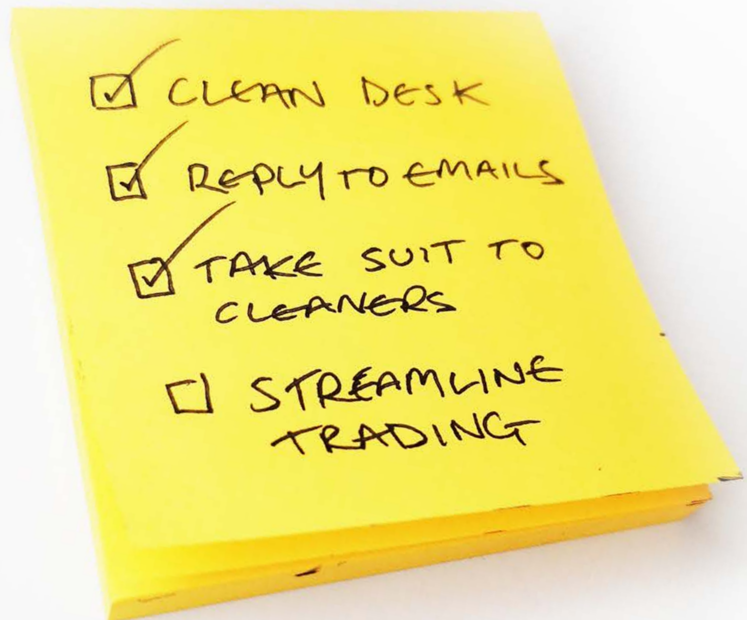
This strength was replicated throughout 2021, with the fund manager generating US$540 billion of full year total net inflows. This reflects 6 per cent organic asset growth and 11 per cent in organic fee growth, powered by record net money flows into active strategies and ETFs.

Buoyed by these trends, BlackRock's assets under management have grown by 15 per cent YoY to US$10.01 trillion.

Over the 12 months, BlackRock delivered a 20 per cent increase in full year revenue, which rose to US$19.37 billion, based on record organic growth, record performance fee income and a continued rise in technology revenue (which climbed 13 per cent YoY to US$1.28 billion for 2021), particularly driven by its Aladdin funds platform.

Net income attributable to BlackRock increased from US$4.93 billion in 2020 to US$5.90 billion for 2021, a 20 per cent rise year-on-year.

BlackRock chairman and CEO Larry Fink comments: "BlackRock delivered the strongest organic growth in our history, even as our assets under management reached



Say goodbye to tedious tasks.
Say hello to potential.

Wouldn't Securities Finance be simpler with more integration and automation?
Shouldn't the day be about opportunities, not mundanities?

It's time to change the way we work.

www.tradingapps.com

J.P.Morgan

EXPERIENCE

One collateral platform to manage tri-party and margin

Optimized globally, across trades, assets and custodians

Delivered by a trusted partner and market leader

Put our experience to work.

Contact your J.P. Morgan representative to learn how we can help.
jpmorgan.com/securities-services

J.P. Morgan was named Collateral manager of the year at the AsiaRisk Awards 2020, in September last year.

The products and services described in this document are offered by JPMorgan Chase Bank, N.A. or its affiliates subject to applicable laws and regulations and service terms. Not all products and services are available in all locations. Eligibility for particular products and services will be determined by JPMorgan Chase Bank, N.A. and/or its affiliates.

J.P. Morgan is a marketing name for businesses of JPMorgan Chase & Co. and its subsidiaries and affiliates worldwide. The material is produced and distributed on behalf of the entities offering Corporate and Investment Banking activities, including but not limited to JPMorgan Chase Bank N.A. (including through its authorized branches), J.P. Morgan AG, J.P. Morgan Bank Luxembourg S.A. (including its authorized branches), J.P. Morgan Bank (Ireland) Plc, J.P. Morgan (Suisse) SA, J.P. Morgan Europe Limited and its authorized branches, J.P. Morgan Securities LLC and J.P. Morgan Securities plc. JPMorgan Chase Bank, N.A., organized under the laws of U.S.A. with limited liability, is authorized by the Office of the Comptroller of the Currency in the jurisdiction of the U.S.A. For additional regulatory disclosures regarding these entities, please consult: www.jpmorgan.com/disclosures.

© 2021 JPMorgan Chase & Co. All rights reserved.

new highs. We generated US$540 billion of net inflows in 2021, including an industry leading US$267 billion of active net inflows.

"Our record results across each of our strategic priorities demonstrate the benefits of continually investing in our platform over years ahead of our clients' needs and the tireless commitment of our employees."

corfinancial launches SureVu ahead of CSDR implementation date

Corfinancial has launched SureVu Penalty Fees Processing and Management, a software solution to help buy-side firms manage failed trades under forthcoming changes to the Central Securities Depositories Regulation (CSDR).

CSDR will require trading venues and investment firms established in the EU to improve settlement discipline by 1 February 2022 — under CSDR's Settlement Discipline Regime (SDR), if a settlement failure occurs, depositories must impose cash penalties on failing participants.

SureVu supports the complex processes associated with penalty fees management, with a set of management information dashboards that summarise data and priorities. Utilising SureVu users will be able to lodge and manage appeals against fees that are in dispute.
By adopting these new features, corfinancial's clients will be ready for CSDR's go live on 1 February 2022, the software provider says.

Deutsche Börse expands analytics suite with Eurex Open Interest Insights

Deutsche Börse's Market Data + Services has launched a data offering, Eurex Open Interest Insights, for buy-side and sell-side market participants.

The service, which is available via API or Web GUI, will provide customers with insights into market positioning and dynamics, as well as an in-depth view into the distribution of exposure in futures and options.

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

With advanced automation, the latest digital functionality and simplified integrations, you can increase economies of scale while generating new revenue streams and better serving your customers.

FIND OUT MORE TODAY

©2021 FIS. FIS and the FIS logo are trademarks or registered trademarks of FIS or its subsidiaries in the U.S. and/or other countries. 1431251

BEYOND

GLOBAL SECURITIES FINANCING

More than just securities financing, together we can create the right solution

Voted most innovative Global Equity Borrower*, Natixis offers high quality solutions thanks to its in-depth knowledge of the Securities Financing market.

Collaboration || Financing || Solutions

*Group 2 - Global Market Lenders and Borrowers were split into 2 groups based on the volume traded

FINANCIAL SOLUTIONS
THAT GO BEYOND

Contact: Ian Beattie, Head of Client Development Europe & UK
Tel: +33 1 58 55 83 08 - ian.beattie@natixis.com

The data offering captures proprietary data from behind the exchanges network and provides a daily analysis of the positions of market participants such as agents, market makers and proprietary traders.

This solution is also supplemented with 'Open Interest' measures, enabling users to gauge trading participants' risk appetites and convictions.

Speaking on the announcement, Alireza Dorfard, head of Market Data + Services, says: "We see an increased interest from our clients for actionable market data insights. To cater for this development, we are expanding our analytics portfolio. Eurex Open Interest Insights is the latest addition to our solutions in this sphere."

The company has recently launched HHI Insights for Eurex and Xetra markets to measure market concentration, as well as the online analytics platform A7 Analytics, which provides market participants with order book data, reconstructed in a cloud platform to run algos and pull down results via API.

European repo market at 2021 year end: an orderly but expensive turn

The International Capital Markets Association's European Repo and Collateral Council (ERCC) has published a briefing note on the performance of the European repo market at year-end 2021.

Traditionally published by the ERCC in January, the report reflects on how end-of-year conditions have impacted EUR, GBP, USD and JPY repo markets, drawing on market data and accounts supplied by buy-side and sell-side market participants.

The report concludes that, in the eyes of market participants, the year end for the euro repo market was orderly from an operational standpoint, particularly for core sovereign collateral. Alongside significant pre-positioning of collateral, central bank lending programmes played an important role in delivering this stability.

OVERCOME YOUR CAPITAL MARKETS CHALLENGES

Enhance Performance
Manage Costs
Increase Access to Liquidity
Manage Exposure and Mitigate Risk
Improve Governance and Transparency

Tackle these challenges head on with solutions from Northern Trust Capital Markets – capitalise on advanced technology, transparent trading, quality execution and smart liquidity solutions across:

Foreign Exchange | Securities Lending | Integrated Trading Solutions | Transition Management

For more information, visit **northerntrust.com**

© 2021 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the U.S. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation.

Capital markets services are provided by Northern Trust Capital Markets, a trading name of a number of Northern Trust entities that provide trading and execution services on behalf of institutional clients. Foreign exchange services are provided by The Northern Trust Company; Institutional Brokerage services are provided by Northern Trust Securities, Inc., Northern Trust Securities LLP, Northern Trust Global Services SE and The Northern Trust Company of Hong Kong; Securities Lending and Transition Management services are provided by The Northern Trust Company and Northern Trust Global Services SE.

This material is directed to institutional investors and professional clients only and is not intended for retail clients. For Asia-Pacific markets, it is directed to expert, institutional, professional and wholesale clients or investors only and should not be relied upon by retail clients or investors. **For legal and regulatory information about our offices and legal entities, visit www.northerntrust.com/disclosures.**

Notwithstanding, the 2021 year end was the most expensive for core repo since 2016 and for the longest period leading up to any recent year end.

By November, year-end GC was being priced expensively, with implied rates for German GC, for example, sitting at between -4.5 and 5.0 per cent. Implied rates continued to tighten through November, reaching a low of around -9 per cent before easing by mid-December.

Non-core repo rates were even tighter than 2016, leading to the most expensive year-end turn since the introduction of the euro. The report says that it was the periphery segment that particularly caught the market off guard. Liquidity began to dry up as the year end approached, but few anticipated a tightening of more than 100bps to previously implied rates.

However, Italian general collateral (GC) averaged -3.37 per cent in the interbank market, with specifics averaging -4.19 per cent down to a low of -4.86 per cent. Spanish GC averaged 3.41 per cent and specifics -5.02 per cent, with some specials trading as tight as -10 per cent bilaterally.

This sudden tightening of periphery rates was attributed particularly to collateral scarcity, potentially as a result of bonds being used in the European Central Bank's (ECB's) Targeted Longer-term Refinancing Operations and weak access to underlying central bank lending programmes, either directly or via intermediaries.

Several market participants voiced their concern about the "extreme trading levels" observed in the euro repo market over year end, the relative absence of liquidity and the fact that some market participants were pre-positioning, at significant cost, from October onwards. Given these conditions, they questioned whether this is consistent with a functional, healthy repo market.

Buy-side respondents indicated that although some dealer counterparties did elect to close their books in the run up to the year end, it was still generally possible to trade, even in

When you're looking to extend your global reach, turn to the proven prime finance solutions and seamless execution of BMO Capital Markets.
BMOCMPrimeBrokerageSales@bmo.com

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. (member FDIC), Bank of Montreal Europe p.l.c., and Bank of Montreal (China) Co. Ltd, the institutional broker dealer business of BMO Capital Markets Corp. (Member FINRA and SIPC) and the agency broker dealer business of Clearpool Execution Services, LLC (Member FINRA and SIPC) in the U.S., and the institutional broker dealer businesses of BMO Nesbitt Burns Inc. (Member Investment Industry Regulatory Organization of Canada and Member Canadian Investor Protection Fund) in Canada and Asia, Bank of Montreal Europe p.l.c. (authorised and regulated by the Central bank of Ireland) in Europe and BMO Capital Markets Limited (authorised and regulated by the Financial Conduct Authority) in the UK and Australia. "Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.
® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

size, although it was often expensive to do so. Some market participants reported a significant rise in settlement fail rates across the year end. For some, this was a sign of market stress or dysfunction. For other respondents, this was not atypical when compared with previous years.

On this point, some questioned how well the market would have fared had not so much pre-positioning been done in advance. Survey participants observed that the market began positioning for year end through the term market from October, with much of the necessary trading activity already done by mid-December. During Q4 21, Eurex recorded an 83 per cent YoY increase in term repo trades with end-legs settling in January 2022.

The report concludes that sterling repo rates experienced downward pressure over year end owing to excess reserves and a short supply of specials. Participants report that liquidity was weak in the approach to the turn, but the market remained relatively orderly with Delivery-by-Value trading around -0.60 per cent and sub-10 year specifics trading at 10-25bps tighter.

Term rates remained steady over year end, although participants indicate that term GC spreads since Q2 2021 have been the tightest in memory relative to SONIA (at 7-12bps) — largely as a result of excess reserves.

USD repo rates remained broadly unaffected by the turn in both onshore and offshore funding markets, according to the report, with participants observing strong liquidity for both GC and specials. The Federal Reserve's Overnight Reverse Repo facility provided an important pressure valve that helped to ease downward pressure on rates in the run-up to year end.

The ICMA ERCC briefing note on the European repo market at year end has been published each January since 2017. It draws heavily on data supplied by Eurex, Bloomberg and CME Group Benchmark Administration.

Commentary and insights from AXA IM, Bank of America Merrill Lynch, Barclays, BlackRock, Eurex, HVB Unicredit, JP Morgan, LCH and UBS were key in preparing the report.

The Xconnect Factor

THE BEAUTY OF BESPOKE

If a more bespoke, securities financing service is a better fit for your business, call to see how we measure up.

+44 (0)207 866 0615 / 0616
www.xconnecttrading.com

Xconnect
TRADING LIMITED
Securities Finance Specialists

securitiesfinancetimes

GIVE MORE VALUE TO YOUR CLIENTS
& GET THEM LISTENING TO YOU MORE

Securities Finance Times is now offering companies the opportunity to partner with us and promote your podcasts to a wider audience

Let us help you grow your audience.

For more information contact **Justin Lawson** on 020 8750 0929
or email **justinlawson@securitiesfinancetimes.com**

Iain Mackay
Head of post-trade
EquiLend

Tackling settlement failure in securities finance

EquiLend's head of post-trade Iain Mackay speaks to Bob Currie about the release of Settlement Monitor and how the company is helping clients to adapt to the settlement discipline regime under CSDR

After a long period of consultation and detailed industry-level preparations, the Central Securities Depositories Regulation (CSDR) settlement discipline regime will come into effect on 1 February.

To deter settlement failures, CSDs in the European Economic Area (EEA) are required to impose cash penalties on CSD participants that cause a settlement failure. These cash penalties apply daily for each day that a transaction fails to settle after the intended settlement date.

The settlement discipline regime will have a wide impact on firms engaged in securities trading, including securities lending and financing transactions. All firms with transactions settling in EEA CSDs and ICSDs will be impacted by the regulation. This will include firms from the UK and other non-EU countries when a transaction settles in an EEA CSD or ICSD.

This will make it increasingly important for firms to track and resolve pending settlement failures and to take pre-emptive measures to prevent failed trades. This is in keeping with policymakers' objectives, through the settlement discipline elements of CSDR, to raise the efficiency and safety of securities settlement systems and practices across the EEA.

To help firms to improve the efficiency of their settlement systems, and to prepare for the introduction of cash penalties — and mandatory buy-ins, if these are introduced at a later point — EquiLend has launched a new Settlement Monitor tool in readiness for the 1 February live date.

With the release of this settlement discipline regime, market participants will need to take in penalties reports from CSDs and to validate this information in line with their internal trading and settlement records. Monthly summaries of failed trades and corresponding cash penalties from the CSD must be reconciled against trade level daily records and reporting. For firms settling trades at multiple locations, this will require that they analyse and reconcile settlement activity reports from each CSD in the EEA to which they route trades for settlement.

In preparation for the product release, EquiLend has been onboarding clients into its test environment over the past three months, operating a test framework which mirrors the user's production environment.

"We recognise from our experience in building our Securities Financing Transactions Regulation (SFTR) service how important the client onboarding and testing process is to the success of the end solution", says Mackay. "We must ensure that data submitted by clients is accurate and standardised, verifying that insights provided via the Settlement Monitor dashboard are consistent with clients' live trading and settlement activity."

Beyond reconciliation

Settlement Monitor is a settlement failure management platform which enables users to monitor, reconcile and resolve failed (and pending fails) securities finance transactions. It provides a consolidated view of a user's settlement activity across its global trading environment, enabling users to monitor a trade's status across the settlement lifecycle, focusing on the key elements that may cause a trade to fail.

> *"Settlement Monitor's pre-matching and fails management engine compares mandatory fields required for settlement to identify and address issues which may lead to trade failure"*

In doing so, Settlement Monitor reconciles SSI information from EquiLend's SSI repository to identify errors and to suggest corrections. Additionally, it draws real-time collateral status updates from EquiLend's Exposure platform, confirming that required collateral is in position to enable loans to be released into the market.

This also allows clients to monitor and manage the lifecycle events associated with a SBL transaction — including recalls and returns, rate changes, mark-to-market and corporate actions — in one centralised dashboard and to track this activity on a near real-time basis.

A strength of EquiLend's service portfolio, Mackay notes, is that it offers an end-to-end securities finance solution that fulfils clients' needs across the securities finance value chain — embracing trading, post-trade and data services. With the acquisition of a majority stake in Stonewain in August 2021 (preceded by a 2.5 year partnership arrangement with the New Jersey-based company which resulted in the launch of the EquiLend Spire product), EquiLend brings new levels of efficiency to record keeping and audit functions for securities finance transactions while providing the user with a consolidated, enterprise-wide view of their positions and holdings.

For users wishing to centrally clear their securities lending transactions, EquiLend Clearing also provides direct connectivity to a range of central counterparties.

Designed to reduce fail rates and to minimise penalties in the Central Securities Depository Regulation (CSDR) regime, Settlement Monitor's pre-matching and fails management engine compares mandatory fields required for settlement to identify and address issues which may lead to trade failure.

"For transactions traded electronically — for trades booked on EquiLend's NGT platform for example — our post-trade analytics reveal that typically around 0.3 per cent of settlement instructions have broken fields," says Mackay. "In contrast, for trades booked off platform, up to 25 per cent of settlement instructions may have incorrect field entries and will fail to settle on settlement date."

"This is an unacceptable statistic for a securities finance industry working to improve STP rates and to reduce operational risk," observes Mackay. "Our priority, and a primary reason for the launch of Settlement Monitor, is to eliminate these operational errors and to reduce fail rates across the sector."

A common source of settlement failure, Mackay notes, arises from

firms attaching incorrect standing settlement instructions (SSIs) when they book the trade. EquiLend's solution helps users to apply the correct SSIs and to confirm that settlement reference data held in the SSI repository is current and accurate. Among other benefits, this is essential to ensure that settlement instructions are populated accurately and that subsequent reallocations are correctly processed, ensuring that loan securities are allocated to the correct recipient.

With this in mind, Settlement Monitor has focused on moving beyond traditional reconciliation, bridging wider elements of the value chain and monitoring for errors from point of trade across the full settlement cycle. As noted, Settlement Monitor also includes a predictive capability, providing recommendations to users regarding which SSIs should be applied and advising on remedial action when it identifies potential trade failure or STP breaks.

With the spotlight focused on settlement risk, this is driving a stronger commitment at enterprise-level to improving settlement discipline. Recognising the negative impact that failed trades can have on the aggregate cost of securities lending, trading teams are taking greater interest alongside their post-trade colleagues in eliminating fails and improving STP rates. These cost implications will become even more relevant with the introduction of CSDR cash penalties.

For securities lending transactions, which typically settle free-of-payment (FoP), this demands integrated end-to-end technology, but also joined-up thinking across the organisation. When borrowing securities, for example, the FoP trade must align with deadlines for onward use of the borrowed securities. If securities are borrowed as fails coverage for a DvP cash equities trade, for instance, the FoP trade must release the securities before the DvP settlement deadline. If not, the DvP transaction will fail — resulting in a cash penalty being applied by the CSD, while the firm will also carry the cost of borrowing the securities.

Given the cost implications of settlement failure — alongside potential reputational damage and disruption to trading strategy — Mackay predicts that Settlement Monitor will be an important tool in helping users to manage their settlement workflow in a CSDR environment.

These factors may also prompt a change in behaviour from trading parties, with firms increasingly moving to same-day settlement for securities lending transactions. "The goal is to help the business to adapt to a same-day process and to ensure this is as streamlined and STP as possible," he says. "NGT and its link into our post-trade solutions can reduce the latency between trade execution and settlement — streamlining the timeframe for execution, pre-matching, passing settlement instructions to the CSD, as well as ensuring that inventory is in place by the required cut offs."

> *"The goal is to help firms to control their securities lending transactions at pre-trade level and to remove inefficiencies within securities lending"*

With the cash penalty regime going live from the start of February, Settlement Monitor will also play an important role in enabling firms to process, reconcile and allocate settlement fines. When monthly details of settlement fines are issued by the CSD, Mackay believes that some firms will experience difficulties in validating and allocating these charges using their current systems — and it is important that they can integrate this requirement with their existing procedures for settlement reconciliation. With Settlement Monitor, this activity will be centralised, reconciled and it will provide guidance regarding how settlement penalties should be allocated within the organisation.

In summarising, Mackay explains that the goal is to help firms to control their securities lending transactions at pre-trade level and to remove inefficiencies within securities lending, thereby ensuring that this activity contributes to an efficient capital market. "EquiLend's Settlement Monitor will help firms to achieve this," he concludes. "Being able to apportion settlement fines issued by the CSD and effectively allocate real charges to inefficient counterparties will help to drive real change and allocation of liquidity."

Asia Pacific securities lending: Positioning for a strong 2022

Asia-based securities lending specialists reflect on the performance of APAC markets during 2021, the lifting of short-selling bans in Malaysia and South Korea, and prime opportunities for growth of lending activity in 2022 and beyond

Panellists

Jansen Chua, senior managing director and head of securities finance APAC, **State Street Global Markets**

James Cooper, APAC trading head, agency securities lending, markets and securities services, **HSBC**

Sunil Daswani, global head of securities lending, financing and securities services, **Standard Chartered**

Natalie Floate, head of markets and financing services APAC, **BNP Paribas Securities Services**

Phil Garrett, head of securities finance, Asia Pacific, **Northern Trust**

David Lai, product manager, agency securities lending, Asia Pacific, **J.P. Morgan**

Paul Solway, head of securities finance, Asia Pacific, **BNY Mellon Markets**

How do you assess the performance of APAC securities lending markets during 2021?

Jansen Chua: We saw a rebound in APAC market performance in 2021 versus 2020. This was driven primarily by strong short demand for Taiwanese (namely shipping and display panel issuers) and Hong Kong securities (HK-listed real estate issuers such as Evergrande Real Estate), capital restructuring (BHP in Australia) and a broad resumption of interest for South Korean securities where the short-sale ban, announced in 2020, was finally lifted.

Sunil Daswani: The Asian markets have been a real standout in 2021, with strong returns seen on both our discretionary and exclusive books. Borrower demand has grown over the period and continues to do so going into 2022, with most market participants bullish about prospects over the next 12 months. The big driver of much of this growth was the partial lifting of the short selling ban in South Korea, which not only drove activity in that market but also had the effect of buoying business across the region. We are optimistic that South Korea will continue its upward trajectory into 2022 and expect similar performance in Hong Kong, a market that very much returned to form in the latter part of 2021.

GC lending across many developed markets did soften through 2021, much of which was due to the meme-stock phenomenon that kicked off in the US in the early part of the year. Asia markets weren't immune to this softening, which was particularly noticeable in Japan, although this was offset in part by increased lending volume over the record dates in that market throughout 2021.

Paul Solway: APAC securities lending for 2021 enjoyed stronger performance overall than 2020. Total securities lending revenue was up more than 30 per cent, with some markets in APAC clearly outperforming. Taiwan's securities lending revenue was up almost 200 per cent owing to the valuation of the panel makers and shippers, with the TAIEX ending the year as one of the best performing stock indices, up 23.66 per cent. Hong Kong and Malaysia were the other two markets that performed very well in 2021 in the securities lending space.

2021 was a thematic year, with lots of events driven by and related to COVID-19. Supply chain disruptions, energy shortages and chip shortages were some of the headwinds that impacted pricing and demand in securities lending. We have seen the high earners surrounding certain sectors like the shipping companies (Cosco, HMM, Wan Hai Line), the panel makers (AU Optronics, LG Display), rubber glove manufacturers (Top Glove, Sri Trang), and even the coal names (Banpu) — this was very consistent across all APAC markets. Corporate action and deal-driven names also played a role this year, with WH Group and BHP being two important earners in Hong Kong and Australia respectively.

In terms of weak earners, the only two markets in APAC where lending revenues have gone down were Japan and Singapore, which experienced a lack of specials this year. Singapore revenues were also impacted by the reduced dividend and scrip events for the major Singaporean banks in 2021.

David Lai: Taiwanese SBL growth was one of the key stories across the street in 2021. The industry has seen record trading balances as the market continues to grow in both onshore and offshore trading.

From an offshore perspective, I think it is fair to say that most supply has been centred around a select number of beneficial owner clients. So, it has been encouraging to witness the recent changes in our book composition and the increased dialogue that is taking place with our client base.

Korea lending activity has started to pick up traction following the last few KOSPI/KOSDAQ rebalances, which introduced some new IPO names into the short sell universe.

In Hong Kong, which is the most competitive market among lenders, global logistics, China technology, China property, and COVID/pharmaceuticals sectors continue to be the areas of focus. In 2021, we saw key specials in Hong Kong contributing significantly to our APAC revenue growth.

Phil Garrett: There were two key factors driving performance in APAC in 2021, namely China's regulatory clampdown on a number of domestic sectors and the eagerly anticipated return of short selling, albeit partially, in Korea.

At the start of the year, the focus was on US sanctions on investments in named Chinese companies deemed to have ties to the military. By mid-year, however, attention was turning towards the regulatory tightening across certain sectors in China, including technology, private education, gaming and most notably property.

A potential liquidity issue emerged for China Evergrande Group and by year-end the credit situation was affecting most of the sector, causing fears of contagion and driving strong sector lending demand. China's clampdown created conditions which enabled market-wide short conviction not seen since before COVID. The Hang Seng Index finished down 15 per cent for the year, justifying the downside conviction.

Elsewhere Korea saw the re-introduction of short selling in May limited to constituents of the KOSPI 200 and KOPSI 150 indices, which saw strong demand driven by the likes of LG Display, HMM and Doosan Heavy Industries.

The sheer size of the Japanese market once again meant it was one of the region's top revenue generating markets despite being heavily GC with few notable specials through the year. Sector-wise, we saw strong demand in some e-commerce names while other demand came from convertible bonds and secondary offerings.

Taiwan and Australia also saw strong revenues, with both stock markets performing well through 2021. Taiwan was driven by technology, and primarily semiconductor names, as the PHLX Semiconductor Sector Index recorded an all-time high. Australia was a strong performer in the second half of the year as high vaccination rates saw lockdowns end and the economy start to improve. All eyes towards the end of the year were focused on the impending BHP unification event.

In summary, APAC lending performance was stronger year-on-year in terms of Return to Lendable for equity markets, outperforming other regions on that measure. The return to risk-on for short sellers, particularly in the second half of the year, was a major boost for revenue generation and a welcome trend going into 2022.

James Cooper: 2021 was both a challenging and exceptional year from an APAC perspective. The evolving COVID landscape globally impacted supply chains at all levels, with travel restrictions and the divergent global policies applied to tackle the virus creating a number of global, regional and country-specific opportunities. Structurally, short-sell bans were lifted in Malaysia and Korea, driving a resurgence in demand along with a number of broader market themes. Demand in both markets was strong, with Korea seeing balances rise to previous highs relatively quickly.

The initial round of US sanctions in Chinese companies created some uncertainty in the market, but also opportunities for non-US asset owners and non-US entities. We noted that fees spiked on otherwise very liquid securities such as Xiaomi (1810 HK) as a result of the decrease in supply. In terms of China policy and the economy, we saw the regulatory tightening of technology companies, the restructuring of educational companies into non-profit organisations, and a liquidity crunch in the property sector — all of which drove security or industry-specific interest on the demand side.

Natalie Floate: Performance has been excellent in key revenue markets, particularly Hong Kong. This is a market that continues to impress us in terms of corporate activity and consistency of returns from special trading opportunities. In APAC, we are also constantly

"The APAC markets continue to look very positive from a securities lending perspective. We continue to see inventory levels increasing, driven both by new investment mandates in the region and also new asset owners starting to enter securities lending."

James Cooper, APAC trading head, agency securities lending, markets and securities services
HSBC

standard chartered

Progress doesn’t have to cost our planet

From financing innovations that build sustainable cities to powering millions of people through clean energy – find out all the ways we’re using money as a force for good at **sc.com/hereforgood**

here for good™

looking at South Korea, Taiwan and more recently at optimisation via the China Connect schemes.

Global financial markets have been subject to major fluctuations in liquidity and market pricing over the past two years, heavily linked to the impact of COVID-19 pandemic. What adaptations to working practices have you made to sustain and grow your APAC securities lending activity in this environment?

Solway: Our Trading Apps purchase in 2018 was key for our future-state resiliency, evolution and enhanced automation capabilities. The acquisition balanced low-touch automation with high-touch human influence, and this remains a fundamental focus for us in 2022. Working from home has also worked really well for us across the board; trading, relationship management and operations were all seamlessly moved from office to home working and they continue to work well for us.

Optionality continues for all our teams in both the front and back office, with staff able to choose which environment suits them in consideration of both their business-as-usual obligations and personal circumstances. Lack of travel has been a challenge for us but, again, technology has assisted in bridging any consequential gaps — although screen fatigue remains an issue for everyone.

Having a forward-looking location strategy to deliver local, on the ground solutions is another way we are making an impact in local Asian markets with our recent addition of a dedicated relationship manager in Seoul to serve our Korean clients. We also have further plans to expand product development and client service in 2022.

Chua: Flexible (or hybrid) work arrangements were definitely important adjustments that we implemented (and continue to invest in) to help provide support for our staff. Safety and well-being were clear priorities while balancing the need to minimise disruption to our programme, clients, and counterparties. Virtual engagement with clients and prospects was a new activity that we had to adapt to, replacing the traditional travel-enabled face-to-face relationship meetings. This new mode of engagement required a shift in how we have traditionally managed relationships and was supported by instructor-led training classes for our teams and the use of external vendors to support client engagement events.

Maintaining engagement with our employees was also a key management consideration. Traditional methods of bringing people together (e.g. coffee meetings, 1x1 in-person meetings) had to be replaced with virtual engagements instead. This required more deliberate planning and coordination and a heightened focus on leveraging collaboration tools available across the enterprise.

Lai: First of all, the whole industry should be proud of how it has navigated through the last two years. When describing the industry to outsiders, the words ‘relationships’ and ‘communication’ have always been prominent and we have certainly seen these traits keep morale high and work processes efficient.

From a J.P. Morgan perspective, we were rather fortunate to have

“Specials will continue to be key to APAC revenues. Stress in the China property market will carry on, while the tech-heavy markets of Korea and Taiwan will continue to see volatility as both investor sentiment and macro influencers push and pull money in and out of this sector”

Paul Solway, head of securities finance, Asia Pacific
BNY Mellon Markets

our Japan trading desk fully operational in January 2021. With three trading desks in the region, we were able to remain flexible as external factors constantly changed.

In Hong Kong, our Asia-Pacific headquarters, we brought all our staff together across two offices at the end of 2019. The cutting-edge technology of the new workplace allowed us to enhance our virtual connectivity and collaboration and it also enabled us to align our staffing parameters when this was deemed to be appropriate or necessary.

In which APAC markets do you identify new opportunities for growth of your lending business? What regulatory changes, and changes to market practice, are required to enable and sustain this market development?

Lai: At the start of a new year, we once again find ourselves excited about the prospects for the China market. The opportunities, challenges, and relevant developments have been discussed extensively in previous articles in this publication, so I will not repeat them here.

As mentioned earlier, the industry has demonstrated its resilience during the pandemic — working with each other, clients, counterparties, and authorities to address any requirements or concerns. As such, we are well-placed to participate in the China market under any framework that is agreed upon.

Daswani: There continues to be potential opportunities in APAC markets that will provide for growth in coming years. Timing is always a challenge, as generally the stakeholders in the local market will need to work with regulators to adjust or add regulatory language to allow foreign investors to participate. For example, in the Philippines there is a pending regulatory change to allow offshore collateral to be accepted and to recognise the industry standard Global Master Securities Lending Agreement (GMSLA). Whilst many hoped this would happen in 2021, it has yet to occur.

There has been increased dialogue with stakeholders in Indonesia in 2021. The focus has not just been on opening the equity market to foreign investors, but also potentially the fixed income market. The latter may initially focus on opportunities for domestic investors, but hopefully may extend to foreign investors over time.

No conversation on opportunities in Asia would be complete without discussing China. There is some work to do here to open the market for foreign investor participation, but there may be an opportunity for an investor that is comfortable with the central counterparty risk — which is the only option under current rules. This model, similar to what we see in Brazil, does restrict many lenders from participating owing to their own regulations on collateral, but this may present opportunities for some specific investor types, including onshore investors.

From a new investor perspective, we are already seeing interest from China insurance companies following the recent regulatory change which allows these investors to participate in securities lending. As always, the Pan Asian Securities Lending Association

"No conversation on opportunities in Asia would be complete without discussing China. There is some work to do here to open the market for foreign investor participation, but there may be an opportunity for an investor that is comfortable with the central counterparty risk"

Sunil Daswani, global head of securities lending, financing and securities services
Standard Chartered

(PASLA) is leading the charge in advocating for change in Asia and both Standard Chartered and our JV partner eSecLending are supportive of these efforts.

Solway: We think both tactically and strategically in terms of counterparties, collateral markets and trade ideas or solutions. The art is to nimbly navigate the different permutations that exist between these evolving parameters. The region remains diverse, fluid, and opportunistic, so having tactical options within existing open markets is key. Collateral is also a significant factor, with major considerations being cash versus non-cash, pledge versus title transfer, and RWA-friendly assets versus less capital-efficient securities.

Last year we spoke about new market aspirations such as China, Philippines and Indonesia. Not much has changed for these markets in the past 12 months, but we continue to work with PASLA and others to advocate and influence moves for regulatory change, market openness and harmonisation across Asia. With our successful delivery of China Stock Connect as collateral within agency lending, our sights now turn to China Bond Connect in 2022 in the expectation that this additional collateral flexibility will provide further financing solutions to the street and will underpin spreads and grow utilisation rates.

In the meantime, we remain strategically focused on adapting our models, where necessary, to make it easier for counterparties to trade through and with us. Linking products and services will allow us to leverage our franchise, which will not only add real value for our clients but also foster market efficiencies and drive meaningful price discovery in local markets.

Garrett: The securities finance industry has had China in its sights for over a decade. Promising developments in the China Qualified Foreign Institutional Investor (QFII) scheme to allow securities lending led to much optimism in 2020. However idiosyncrasies around the operating model have meant that any meaningful participation for offshore lenders is extremely limited. Ongoing regulatory engagement through industry bodies such as PASLA and Asia Securities Industry & Financial Markets Association (ASIFMA) will hopefully enable modifications that will allow for full access to China through a more compatible model in the future. Whether this will happen in 2022 is, admittedly, doubtful.

Other markets to watch out for are Indonesia and the Philippines. Both markets have been stop-start on progress towards a viable SBL model for offshore lenders. For Indonesia, there were signs of regulatory re-engagement towards the end of the year, while in Q1 the Philippines announced the intended launch of rules and regulations for short selling. However we are still waiting for this to happen and both markets remain on hold at the time of writing.

The potential lifting of the remaining short-sell ban in Korea will also provide additional opportunity and we await further news from the regulators on this.

Cooper: Collateral mobility and optimisation remains a key focus in APAC. We continue to see demand for a widening of acceptable

"There were two key factors driving performance in APAC in 2021, namely China's regulatory clampdown on a number of domestic sectors and the eagerly anticipated return of short selling, albeit partially, in Korea."

Phil Garrett, head of securities finance, Asia Pacific
Northern Trust

Flexibility.
Reliability.
Durability.

There's No Substitute for Certainty.

certainty-bnymellon.com

title transfer assets such as corporate bonds and ETFs, along with the acceptance of non-standard or ID market [where foreign investors are required to have an investor ID registration to trade and invest] securities such as Korea, Taiwan and Stock Connect — and then, more generally, the pledge structure is generating strong interest. As spreads narrow on historically higher fee lending markets, collateral costs are becoming increasingly important.

Local regulations for some of the ID markets present very specific regional opportunities, along with wider use of non-cash collateral globally and particularly in APAC. We have noted collateral convergence on the borrower side, with optimisation viewed more holistically across the whole business, and this has created new opportunities across business lines and also across regions. As an agent lender, we need to work closely with our clients to maximise these opportunities within their accepted mandates and risk profiles.

What impact is technology development, and parallel standardisation and digitisation of securities lending practices, having in the APAC region?

Solway: The region remains a collection of unique markets that have their own rhyme and reasons for rules, regulations, and activity. However, systematic solutions and controls are now in place for all nine active markets across APAC. Trading Apps remains our differentiator, enabling our traders to focus on the high-value and high-touch trades across both equities and fixed income. Despite spreads remaining under pressure, our balances at BNY Mellon grew in 2021, with records being broken in Japan during seasonal periods in the past year and technology being an enabler of this activity. Using technology in operations is also very much our priority, not only lowering the potential for human error but providing volume and scale that matches off against quant-driven, high-volume trading strategies that are now the new norm.

Lai: J.P. Morgan continues to focus on innovation and meeting the future demands of our clients. Our effort in digital evolution combines artificial intelligence, blockchain technology, and thought leadership to deliver innovative solutions for our clients across our securities financing products. The real-world application of blockchain technology has begun to pick up the pace. It is incumbent for J.P. Morgan to remain integral to this ecosystem and provide liquidity to the market. From a practical perspective, the APAC region still has an overseas nexus, whether from a high-quality liquid asset (HQLA) or a USD cash aspect or a support framework owing to the necessary ‘round trip’ or ‘follow the sun’ processes inherent in our business.

As such, any standardisation or technology development that reduces (or in some cases completely removes) the need for tracked and confirmed movements and post-trade reconciliations will be welcome.

What are the key issues for the APAC securities lending community in promoting high ESG standards across the SBL transaction value chain?

Daswani: More words were written in 2021 on securities lending and ESG than ever before and it continues to be a hot topic in

“The whole industry should be proud of how it has navigated through the last two years. When describing the industry to outsiders, the words ‘relationships’ and ‘communication’ have always been prominent and we have certainly seen these traits keep morale high and work processes efficient.”

David Lai, product manager, agency securities lending, Asia Pacific
J.P. Morgan

2022. We continue to believe that ESG and securities lending can be appropriate companions and the industry associations are working hard to give investors the knowledge and information to ensure comfort in managing these two activities in tandem. In fact, the Global Framework for ESG and Securities Lending (GFESL), published by PASLA in May 2021, led the charge in providing a structure for investors to follow. More recently, a number of industry associations have formed the Global Alliance of Securities Lending Associations (GASLA) to continue the work and focus on ESG solutions for the industry, among other important themes.

At Standard Chartered, we have been part of a regular dialogue with clients and prospects about ESG and securities lending. We believe that securities lending should not be an impact to success in meeting an investor's ESG requirements. Many years ago, our partner eSecLending introduced Proxy Value that provided clients with data on voting materiality and securities lending revenue to better inform the decision about whether to recall a security from loan to vote. As you would expect, this has now evolved to include other elements of the environmental and sustainability agenda to add important additional colour to the information available to clients and fully support the ESG agenda.

Collateral screening has always been something that we have been able to do, primarily due to the segregated nature of our collateral accounts – the client is truly in control of what is taken as collateral and we can support changes as necessary. The main focus of client discussions here has been around managing this element of the programme in a way that is scalable. Thus, the introduction of ESG indices that can be supported by triparty collateral agents has been a particularly strong step to demonstrating adherence to ESG principles in collateral management.

Lai: ESG remains a focus topic for the global industry so, being mindful of the material in the public domain, I reiterate that our approach with all our clients is to understand any specific requirements they may have regarding their lending programme.

This might seem rather a basic statement, but it is the first step in initiating the multitude of programme parameters within the J.P. Morgan Agency Securities Finance platform that allow our clients to customise their agency lending programme. This will impact the range of assets and possibly the rate of return of a lending programme — which our analytical tools will help to highlight. Understanding a client's requirements and discussing the potential impact is the basic fundamental backbone of our business.

If there are client requirements related to the associated collateral, this will also impact the lending programme and processes involved. But, similar to above, these challenges can be worked through with active and clear communication from all parties.

Chua: We continue to see increasing interest in the application of ESG principles to securities lending activity. However, there are still a number of challenges that currently inhibit faster adoption into lending programmes, chief of which is the lack of a clearly defined and widely agreed set of standards among investors. For example, what

"We are expecting more corporate activity in the region as long as conditions remain accommodating. For example, Hong Kong should continue to benefit from new equity listings and IPO demand."

Jansen Chua, senior managing director and head of securities finance APAC
State Street Global Markets

is considered 'eligible' collateral for one investor may be considered 'ineligible' for another. This results in the need for customisation, which in turn prohibits the application of scalability to the processes of lending agents, borrowers and triparty collateral providers.

We also see growing interest in steps to promote transparency into lending activities. Investors are asking questions about their lending activity. For example, who are the ultimate borrowers of the securities? For what purpose are the securities being borrowed? And are these purposes (e.g. short-selling) aligned with their own ESG principles? We view peer-to-peer models as potentially a means to achieving this transparency objective between the principal lender and principal borrower. Traditionally, intermediaries such as the prime brokers and broker-dealers have stood between these principal parties. To address client demand, State Street introduced Direct Access, our managed peer-to-peer programme, in late 2019, enabling direct transactions between our lending and borrowing clients.

Investors have also expressed growing interest in exercising their voting rights for their securities lending portfolios. The desire to maximise lending returns can, at times, appear to be at odds with the need to exercise oversight and governance obligations over issuer companies. There are a range of tools available – such as recalling securities, restricting specific securities, setting limits on lendable amounts – whereby agent lenders can help beneficial owners bridge these two requirements.

Solway: As articulated in many webinars, the focus is currently on proxy voting, collateral and, as always, transparency. I have argued that most, if not all, current ESG concerns have been considered and adapted for in most modern agency lending programmes. At BNY Mellon, we have frameworks in place that give optionality across proxy recalls, collateral/lending restrictions, big data reporting, real-time benchmarking and active parameter screenings. The key challenge is finding sweet spot ESG requirements and standards across a multitude of clients who are all still navigating through their own corporate ESG mandates —and that may not have yet considered the niche impacts to securities lending programmes.

If all clients suddenly restricted lending for proxy votes, there would be a serious impact on supply in certain names and markets — that is obvious, especially in markets like Japan where proxy/AGM events are very prevalent. It is important to advocate for pragmatic approaches. Not all electable events are significant enough for all shareholders and so stewardship obligations may differ. At BNY Mellon, we are currently working to standardise some ESG collateral profiles for clients to leverage. As a leader in the triparty space, we have an obligation to be a first mover in providing our clients with pragmatic screening options for both lending and collateral.

Floate: ESG is not a new topic in APAC. It has been a key focus for beneficial owners that are long-standing participants of the securities lending market. This has positioned us well, enabling us to adapt, adopt and implement our lending clients' ESG objectives, which are already mature and well established in their core portfolios, before being stretched into ancillary activities such as securities lending.

"Our role as agent is critical to highlight that a fund's core ESG objectives can be stretched into their securities lending mandates in a complementary way."

Natalie Floate, head of markets and financing services APAC
BNP Paribas Securities Services

A sustainable business goes far beyond net zero. If you are committed to best practices for society and the environment while growing your business, we are committing between $750bn and $1trn to support you in making the transition.

Find out how you can play a part.

www.business.hsbc.com/bpfp

HSBC

In this regard, we see the role of the agent as critical. Speaking for BNP Paribas Securities Services, our clients look to us as their agent to see what it is possible to implement and to guide them on the implications — particularly in working through the value chain with borrowers and collateral managers. Proxy voting was the first element discussed from Australia and now we are seeing collateral screening as the next natural phase for ESG across APAC. Securities lending is not always considered by beneficial owners when they think of ESG. As such, our role as agent is critical to highlight that a fund's core ESG objectives can be stretched into their securities lending mandates in a complementary way.

How do you assess the outlook for APAC securities lending markets for 2022?

Garrett: The macroeconomic themes that have played out in 2021 will continue to have a heavy impact on borrower demand in APAC for the coming year. China's common prosperity goal will heavily influence stock market conditions not just in China and Hong Kong, but also in regional markets tied to the fortunes of the world's number two economy. Therefore we expect volatility and strong short-side interest to continue for the foreseeable future across the region. That said, we may see some easing in policy to avoid any systemically-impactful defaults. More recently, there has been much talk about an easing of the three red lines policy in the property sector as the government seeks to avoid a wider shock to the Chinese economy.

The reality of rising interest rates will undoubtedly increase volatility across global equity markets and we have already started to see this play out. Even those stock markets which fared well through 2021 are likely to see upward momentum checked in the face of this new environment. This will provide additional motive for more short-side positioning.

There is hope that at some point in 2022, Korea will lift the remaining short-selling ban to allow inclusion of all indices. As we saw with last year's actions, this should provide an opportunity for lenders and borrowers to increase returns from this market.

Solway: Against the backdrop of ongoing and remaining risks from COVID-19, there will be big challenges alongside some surprising and significant opportunities. I fear for some conservative approaches in terms of regulatory or exchange actions against any extreme market movements that may play out. At the very least, certain hopes for market infrastructure progress in emerging markets may see continued procrastination, delays and postponement. The deep, liquid markets will continue to see the best activity; Hong Kong and Japan will continue to dominate. The question will be whether Korea and Taiwan will continue their positive trajectories without impediments or restrictions that cause a drag on revenue opportunities.

Specials will continue to be key to APAC revenues. Stress in the China property market will carry on, while the tech-heavy markets of Korea and Taiwan will continue to see volatility as both investor sentiment and macro influencers push and pull money in and out of this sector. Cash reinvestment is going to be one of the larger focus areas in 2022 for clients. Despite APAC naturally having a lighter cash collateral usage, yield curves are heading north and so nimbler clients will see opportunities and benefits from surprise changes to US and European monetary policy that may play out this year.

Questions remain over whether it will be a global soft or hard landing. Will the US economy be able to handle 1 per cent interest rates? These, and other factors, will decide how 2022 goes for most of our financing community.

Lai: As we begin 2022, we see challenges and opportunities in the securities lending market. In Hong Kong, we expect to see more Chinese companies listing on the Hong Kong exchange. It remains to be seen if SBL activity on these names will remain a key revenue driver.

Korea continues to work its way back to pre-short sell ban levels. While short selling is constrained to a universe of eligible names, Korea represents one of the higher fee-generating markets in APAC, so we are optimistic that this will be a key market for us going forward.

As outlined in our response to an earlier question, the securities lending market will continue to evolve with a focus on automation and product diversification.

Cooper: The APAC markets continue to look very positive from a securities lending perspective. We continue to see inventory levels increasing, driven both by new investment mandates in the region

and also new asset owners starting to enter securities lending.

We are also seeing a number of local Asian markets continuing to develop their infrastructure to introduce securities lending. Following the rule change in late 2020 which allows qualified foreign investors (QFIs) to transact in onshore SBL, China continues to be a key focus, especially for agent lenders, in terms of providing solutions for both onshore and Stock Connect securities. The increased investment in APAC has also created a need to finance new assets, which might be harder to mobilise than those in some other developed markets. The growth in both the pledge structure and tokenisation offers potential solutions for those historically locked in assets.

Chua: We believe APAC markets are generally positioned well for another good year in 2022. We are expecting more corporate activity in the region as long as conditions remain accommodating. For example, Hong Kong should continue to benefit from new equity listings and IPO demand. There are some uncertainties that may create disruptions, namely the Federal Reserve Board's (as well as several regional central banks') stated intention to raise interest rates as well as broader implications of geopolitical events.

Daswani: We are optimistic about the region in 2022, evidenced by the strong bidding we have already for exclusive supply for the coming 12 months, seen by auctions eSecLending ran themselves, and on our behalf, in late in 2021. Returns in South Korea and Hong Kong should continue to strengthen and, similar to what was witnessed last year when the South Korean short selling ban was lifted, we expect that trend to spill over into the other key markets in the region. We remain hopeful that progress will be made in opening up both Indonesia and the Philippines for offshore lending later in the year.

What is top of your development priorities as an APAC securities lending division for the 12 months ahead?

Lai: Last year's Securities Finance Times Asia Handbook announced that J.P. Morgan was the first agent lender to accept China A-shares as collateral for a securities finance transaction conducted through the Hong Kong and China Stock Connect. The logical expansion is to include Bond Connect securities in our acceptable universe of collateral. Not only would this expand to seven the number of APAC domiciles in our acceptable fixed income collateral universe, it naturally builds on the official 2017 launch of Bond Connect.

Over the next 12 months, our team will focus on the further build out of the J.P. Morgan Agency Financing product set, giving APAC clients the ability to solve for all liquidity objectives across a single platform. The platform already offers significant efficiencies in terms of the legal framework, liquidity access, and operational support model, but the development of order management and optimisation functionality will serve to strengthen the economic proposition for outsourcing financing activity.

As a direct result of the next phase of the uncleared margin regulations due in September 2022, the scope of the J.P. Morgan collateral mobilisation and management tool, Collateral Transport, introduced in last year's Securities Finance Times Asia Handbook, will be widened further to be fully custodian agnostic. This will enable the client to consolidate its view on inventory across multiple custodian venues and optimise collateral flows as necessary.

Cooper: As an agent lender, optionality is key to monetise opportunities as and when they exist. This includes having the infrastructure in place to lend in new markets and the ability to accept wider collateral types. This also involves maintaining close and constructive relationships with beneficial owners to discuss time-sensitive trade opportunities. In a market of uncertainty, it is important to focus on those elements that are controllable and product enhancements that enable us to optimise performance for our clients' portfolios that we are entrusted with.

Solway: People, systems, products and clients remain our focus in 2022. Without talented people, smart systems and evolving products, we cannot solve for the needs of our regional and global clients. We will continue to invest in and care about our people to execute a strategy that ensures resiliency both locally and regionally.

Targeting and optimising high-impact securities remains at the forefront of our strategy, from institutional high net-worth or retail clients. Additionally, untapped and new sources of supply are the jewels in the crown these days. Scalable same-day trading is also an area where we want to invest and provide solutions in 2022 as regulations and settlement cycles tighten, with associated penalties only going one way — up.

UMR backtesting: here to stay

A Cassini Systems panel discusses all things backtesting as the Regulatory Technical Standards on Standard Initial Margin Model Validation come into effect in September 2022. Carmella Haswell reports

The Uncleared Margin Rules (UMR) have acted as a dark cloud across the financial industry for the past several years. Phase 5 and 6 firms have long hoped that the regulation's backtesting-benchmarking requirements were to be dropped completely, but are now being forced to face the reality that backtesting is here to stay. Since the release of the European Banking Authority's (EBA's) Draft Regulatory Technical Standards (RTS) in November 2021, firms are scrambling to catch up before the September 2022 implementation date.

Although backtesting has been prevalent across the finance industry, the topic cropped up less often within client conversations prior to the EBA's Draft RTS. According to head of product at Cassini Systems, Thomas Griffiths, clients that were previously interested in backtesting were typically larger firms that were accustomed to model governance committees and had large internal approval of models set up, which they required for internal controls.

However, over the past three months since the release of Draft RTS, this has changed massively. "Backtesting is now mentioned in all of our client conversations — from the time the Draft RTS was released onwards, it has become a talking point," says Griffiths. Some firms are unaware of what backtesting is and why it is needed, having instead whittled it down to yet another thing on the UMR compliance checklist.

Founder of Link Risk, Andy Shaw, explains: "Backtesting is the science of establishing whether or not your risk model is doing what it is supposed to be doing. It is a quantitative process that underpins any particular risk model and demonstrates to the users that it is doing what it should. It is used as a way of measuring Standard Initial Margin Model (SIMMs) validity."

There are two different types of backtesting, static and dynamic. The dynamic backtest is designed to be the simpler of the two, described as "a routine P&L comparison to the portfolio SIMM level on any particular day". However, there are limitations in terms of what it can tell firms. Shaw explains that the static backtest is aimed at the bigger dealers, which involves statistical performance measures, where SIMM validity is established via the static backtest. "It is required to answer the question: is my SIMM level enough to cover 99 per cent of the P&L events that my portfolio might experience?" he adds.

The panel explained that the EU rule set on the initial margin (IM) model validation originally existed to ensure firms have a strong and robust SIMM governance framework that sits around their calculations and it is backed up with suitable controls, procedures and oversight. The rules contain both quantitative (static backtesting) and qualitative (model governance) components. The end goal for regulators is to ensure that firms produce accurate and reliable SIMM numbers. Reverting to the benchmark rule, the panel says SIMM is required to cover exposure for at least a 10-day Margin Period of Risk (MPOR) at least 99 per cent of the time.

Co-founder and director at Margin Tonic, Chris Watts, says the original EU rules which apply to all firms equally are a vast difference to the US rules which apply directly and only to the swap dealers and major swap participants (MSPs). "This has effectively meant that until now, all firms covered by the EU rules have had to meet the same heavy set of model governance and backtesting rules, regardless of whether they are a huge dealer or a smaller buy-side player. Most buy-side firms do not have the sophisticated risk infrastructure seen at the dealers, making these rules difficult to comply with for the Phase 5 and 6 firms in particular.

"On top of that, the International Swaps and Derivatives Association (ISDA) have previously stressed that the SIMM calculation is an approved industry model already. Therefore, these strict requirements are overly punitive for the buy-side, especially when SIMM is already being regularly backtested by the dealers."

The EBA Draft RTS has introduced two sets of model validation rules to add some relief to smaller firms. There is the standard model — which offers a full set of rules for the dealer banks and larger firms (€750 billion) — and a simplified model — which presents a reduced set of rules for smaller firms (€8 billion to €750 billion). The phased transition of the model validation regulator submissions, which require an upfront submission and then at least an annual ongoing submission, will allow firms one to three years for the upfront initial submission, once rules are live.

The submission dates are dictated by a firm's Average Aggregate Notional Amount (AANA) threshold, meaning Phase 6 firms will be given three years from the live date, while dealers have one year to turn around their submissions. It is strongly advised for firms not to wait three years to address these submissions. Additionally, the regulators will have two years to come back on any submissions.

Watts adds: "ISDA has been pushing the EU to strip back these requirements and lobbied for the same model that we are seeing in

the US, where model governance and backtesting is taken away for the buy-side. The buy-side has not got the same risk infrastructure as the larger firms and, at worst, firms could default to grid calculations if they see the SIMM implementation effort as being too heavy. According to ISDA, grid calculations could be two to three times more expensive for Phase 5 firms than SIMM."

Attempting to pave a new and improved way for firms, the EBA released its Draft RTS three months ago. The Initial Margin Model Validation (IMMV) continues with both backtesting and governance components. Although it is more prescriptive than the original RTS, there are some areas open for interpretation, according to Margin Tonic's Watts. Reduced requirements under the 'Simplified' model include the need to perform dynamic backtesting only (rather than the original, heavier static backtest requirement), as well as a lesser set of model governance documentation.

> *"The compliance burden clearly rests with the end client, so vendors can certainly help here, but regulators have stated that clients need to understand their SIMM governance framework, rather than outsourcing it entirely."*

However, a change for all in-scope firms is that explicit model validation approval will be required upfront, in line with the European Market Infrastructure Regulation (EMIR) Refit, which follows best market practice for Market Risk Model Validation. Previously, EU firms were only required to self-notify the regulator of their model governance and backtesting compliance, rather than securing explicit approval. There is also an annual requirement for ongoing regulator submissions.

Watts adds: "The reality is, this relief looks little like what ISDA were lobbying for, with backtesting and model governance still in play. There is an ongoing burden on all in-scope firms going forward including the 'smaller guys'. Backtesting looks different with its two levels, a static side which is aimed at the bigger dealers, and the dynamic side is a day-to-day SIMM versus P&L comparison. It is certainly now lighter touch for the buy-side, which is the good news.

"The model governance documentation is stripped back for those simplified firms as well," notes Watts. "The compliance burden clearly rests with the end client, so vendors can certainly help here, but regulators have stated that clients need to understand their SIMM governance framework, rather than outsourcing it entirely."

The implementation process

The process of implementing backtesting will not come easily for clients with a lack of resources, expertise or interest in keeping it in-house. However, there are a number of firms on hand to aid clients through this period. Managing director of funding and collateral transformation at State Street, Ingvar Sigurjonsson, says State Street can do the backtesting for clients by providing them with reports and documentation — all of which has gone through the firm's internal model validation audit.

Cassini Systems' Griffiths has also been heavily involved in backtesting, helping clients from Phase 4 through to Phase 6 onboard for full regulatory UMR compliance. Cassini Systems offers a backtesting product, rather than a service, which differs from a full compliance solution. Its role is to provide clients with the numbers and a large amount of documentation about why the numbers are what they are, the assumptions that go into the numbers, the models that are employed, and why they comply with regulatory requirements.

Griffiths explains: "For us, building a backtesting solution came quite naturally. When we inputted our SIMM calculations we produced large amounts of model documentation about how we had implemented them and the details of the models. This leads nicely onto model risk documentation. It fitted into a suite of documentation we already had, so then producing the backtesting calculations themselves was a straightforward development build for us. The fact that we had something pre-packaged for SIMM which we could build off helped us a lot."

Margin Tonic has been involved in every phase of UMR, working

HQLA^X

Accelerating Collateral Mobility

Frictionless ownership transfers of assets

At precise moments in time

Without cross custodian settlement movements

Delivery vs. Delivery ("DvD")

Capital cost savings

MARKETPLACE — EUREX

DIGITAL COLLATERAL REGISTRY — HQLA^X

TRUSTED THIRD PARTY — DEUTSCHE BÖRSE GROUP

www.hqla-x.com

HQLA^X

through the full set of end-to-end changes over recent years and believes it is in a good position to aid other firms with their UMR challenges going forwards. Margin Tonic's Watts advises firms to engage with vendors to receive help with the process of implementing backtesting. He predicts the vast majority of firms will outsource their SIMM calculations to vendors of service providers, because SIMM is a 'heavy lift', with input data requirements in particular being prescriptive. This will otherwise prove challenging for firms without a mature risk infrastructure.

Watts adds: "If you think about implementation and the assumption that the majority of firms will use vendors for the SIMM calculations itself, the natural extension for that service is for firms to be asking their vendors whether they can also help them with any ancillary SIMM requirements — that includes backtesting and model governance." Some vendors are more experienced through the challenges of UMR. Having 'burnt the scars and battle wounds', they are now in a position to share lessons learnt with clients to reduce the compliance burden.

End clients are reminded that there is still an internal requirement on firms within the Draft RTS — for example with senior management governance, where firms cannot outsource SIMM entirely.

In addressing the question of who is responsible for SIMM and the relevant model governance, Watts indicates that we need to differentiate between the larger firms and smaller Phase 5 and 6 firms. "There is no one-size-fits-all for the SIMM owner within the smaller buy-side firms. At the dealers, the market risk teams will almost all own SIMM, based on their risk and quantitative expertise. However, on the buy-side that team does not always exist. For those firms who do not have a market risk team already, SIMM ownership will be up-for-grabs and dependent on the set-up at each firm. The reality is that there normally are not teams putting their hands up to be the SIMM owner," explains Watts.

A time constraint

With the implementation of Draft RTS looming, firms are advised to hit the ground running. The process of choosing a SIMM vendor and setting up the relevant model governance and backtesting framework takes time and Watts suggests that firms should think about vendor onboarding. "To share all of your data and scope and set-up with that vendor, in order to get the best tailored service, could take up to 12 months to go live on any particular solution," he says.

In terms of data, clients will not need to bring anything extra to the table when implementing this process. However, vendors will need to provide additional data requirements. Cassini Systems' Griffiths comments: "One good piece of news about backtesting is that there are no additional trade data requirements for clients. If you have a vendor that is producing your SIMM calculations, they should also be able to produce your backtesting calculations with the same trade data that you provided to them for SIMM — assuming they have a backtesting service.

"As a vendor, there is quite a large amount of additional market data requirements. We need to source all of our historic market data and we use industry standard market data vendors to source three years of backtesting data plus the stress years of 2008 and 2009."

Inevitably, regulators play an important part in these discussions, so what do they expect from clients? Link Risk's Shaw explains that the key purpose of the European regulation is for firms to monitor their margin models to evaluate whether or not they're meeting the requirements to cover 99 per cent of losses. As the governance framework to do this is built, it will be down to companies to look at their P&L or their backtest to see if it passes the threshold — regulators could ask to see the retained records as proof of this. If there appears to be a breach, firms will need to follow their governance framework to put the margin back in the green.

Shaw continues: "The Draft RTS may change, it is more of a question of following the right procedures and regulators may well subsequently come in and audit you on it, and then there are different thresholds for when you might have to tell them about the breach. So if things get really bad at that point, you do have to tell the regulator and seek re-validation of the model."

Shaw adds that if firms decided to continue to ignore a model that is flashing red (failing), they would be in breach of the regulation as well as their own governance framework. The impact of this may vary. Firms could face fines for not correcting their margin — although Shaw believes regulators would give firms a chance to rectify the breach first. For firms with no governance framework, more punitive measures may be applied.

In closing, participants held a vote on whether there was a possibility that backtesting could disappear from the Draft RTS. It seems a unanimous decision was reached, with Margin Tonic's Watts stating: "There's more chance of Tottenham winning the Premier League than backtesting being removed."

Investor &
Treasury Services

Optimizing portfolio performance

For over 35 years, RBC Investor & Treasury Services' industry-leading securities finance program has been helping clients generate incremental returns through our trusted market expertise and established risk management framework.

#1 Income Generated*

To find out how our team of specialists can deliver a securities finance program that meets your risk and return objectives, visit rbcits.com.

*Global Investor/ISF Beneficial Owners Survey - Custodial Lender Category Unweighted, 2021

© Copyright Royal Bank of Canada 2021. RBC Investor & Treasury Services™ is a global brand name and is part of Royal Bank of Canada. RBC Investor & Treasury Services operates primarily through the following companies: Royal Bank of Canada, RBC Investor Services Trust and RBC Investor Services Bank S.A., and their branches and affiliates. In Luxembourg, RBC Investor Services Bank S.A. is authorized, supervised and regulated by the Commission de Surveillance du Secteur Financier (CSSF), and jointly supervised by the European Central Bank (ECB). In the United Kingdom (UK), RBC Investor & Treasury Services operates through RBC Investor Services Trust, London Branch and Royal Bank of Canada, London Branch, authorized and regulated by the Office of the Superintendent of Financial Institutions of Canada. Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available on request. RBC Investor & Treasury Services UK also operates through RBC Europe Limited, authorized by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Additionally, RBC Investor & Treasury Services' trustee and depositary services are provided through RBC Investor Services Bank S.A., London Branch, authorized by the CSSF and ECB, and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available on request. RBC Investor Services Bank S.A. maintains a representative office supervised by the Federal Reserve Bank of New York. RBC Investor Services Trust (Australian Branch) is licensed and regulated by the Australian Securities and Investment Commission, Australian Financial Services licence number 295018. Details about the extent of our regulation by the Australian Securities and Investment Commission are available on request. RBC Investor Services Trust Singapore Limited is licensed by the Monetary Authority of Singapore (MAS) as a Licensed Trust Company under the Trust Companies Act and approved by MAS to act as a trustee of collective investment schemes authorized under S286 of the Securities and Futures Act. RBC Investor Services Trust Singapore Limited is also a Capital Markets Services Licence Holder issued by MAS under the Securities and Futures Act in connection with its activities of acting as a custodian. RBC Offshore Fund Managers Limited is regulated by the Guernsey Financial Services Commission in the conduct of investment business. Registered company number 8494. RBC Fund Administration (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of fund services and trust company business in Jersey. Registered company number 52624. RBC Investor Services Bank S.A. is a restricted license bank authorized by the Hong Kong Monetary Authority to carry on certain banking business in Hong Kong. RBC Investor Services Trust Hong Kong Limited is regulated by the Mandatory Provident Fund Schemes Authority as an approved trustee. Royal Bank of Canada, Hong Kong Branch, is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission. This material provides information on the services and capabilities of RBC Investor & Treasury Services. It does not constitute an offer, invitation or inducement with respect to any service or financial instrument. RBC Investor & Treasury Services' services are only offered in the jurisdictions where they may be lawfully offered and are subject to the terms of applicable agreements. This material is for general information only and does not constitute financial, tax, legal or accounting advice, and should not be relied upon in that regard. ® / ™ Trademarks of Royal Bank of Canada. Used under licence.

IHS Markit: Reflections on 2021 securities lending returns

Paul Wilson, managing director and global head of securities finance at IHS Markit, finds that global securities finance revenues increased year-on-year, sustained particularly by equity values and returning demand in APAC as markets removed short-selling bans

IHS Markit Securities Lending Returns to Lendable reports cover 12 broad based indices across equity and fixed income markets and allow market participants to understand potential portfolio returns from securities lending programmes. The reports use IHS Markit's proprietary analytics to track the current and five-year historical lending returns on the constituents of each index, index short interest levels, contribution by securities lending fee categories and top performing sectors and regions for these indices.

This intelligence and insight can help securities lenders — particularly asset managers and pension funds — to analyse the value of their lending portfolios more effectively across markets and asset classes. The reports are made available to the public every month via the securities finance page on the IHS Markit website: Securities Lending Return to Lendable Reports

Return to Lendable reports for the financial year (FY) ending 2021 highlight that global securities finance revenue increased year-on-year, buoyed by equity values and returning demand in Asian equity, particularly in Taiwan and Korea with the lifting of short-selling bans. Corporate bonds provided momentum as inflation expectations began to rise and heavily indebted Chinese property developers defaulted on debt.

MSCI Equity Index Returns

Increased asset values resulted in an overall fall in Returns to Lendable (RTL) across equity indices, except for AC APAC Ex Japan and Emerging Markets. Short interest was broadly down, except for APAC as the removal of short-selling bans in Korea and supply chain issues boosted demand for Taiwan securities. Software and telecommunication services were two of the highest revenue-generating sectors, contributing over 20 per cent of lending revenue in December. The average global equity fee dropped from 31 bps in 2020 to 28.4 bps in 2021, indicating a reduction of special activity.

The table below shows the breakdown of securities lending returns to

Don’t mind the gap

Our repo markets bridge liquidity gaps. More than 160 European financial institutions are currently active on our Repo, GC Pooling, HQLA^x and eTriParty markets. They benefit from trading opportunities with fully integrated clearing and settlement.

Architects of trusted markets EUREX

Fig 1: Breakdown of securities lending returns to lendable for FY 2021 vs FY 2020 across MSCI Equity indices

Index	SL Returns to Lendable (bps) 2021	SL Returns to Lendable (bps) 2020	Year-on-Year Change	Year-on-Year Change in Indexed Short Interest	Revenue Contribution by Warm/ Special Securities
MSCI Emerging Markets	8.2	5.9	39.9%	-5.0%	89.2%
MSCI AC APAC Ex Japan	5.6	4.4	27.9%	8.9%	84.0%
MSCI Europe	4.2	4.3	-1.9%	-16.4%	69.7%
MSCI Japan	2.1	2.2	-3.2%	-13.0%	52.7%
MSCI World	1.1	1.4	-21.4%	-11.0%	54.5%
MSCI USA	0.5	0.6	-26.4%	-7.9%	32.2%

Source: IHS Market Securities Finance and MSCI. For MSCI indices we report Year-on-Year change in Indexed Short Interest Value as % of Market Cap

lendable for FY 2021 versus FY 2020 across MSCI Equity indices (fig 1):

- **MSCI World**: Increased assets value resulted in a 21 per cent drop YoY in RTL. Buoyant market returns cooled short interest, which was down 11 per cent YoY.
- **MSCI USA**: Overall RTL was down 26 per cent as year-on-year returns normalised after the spike in Q2 2020 owing to the COVID-19 outbreak. Short interest continued to drop; our indexed short interest is down 30 per cent since 2018.
- **MSCI Europe:** YoY returns finally stabilised in 2021 after years of structural reforms around dividend trading. Short interest declined 16.4 per cent YoY.
- **MSCI Japan:** Only 6 per cent of the Japan revenues was generated by specials, yet the returns were only down slightly YoY. Food, Beverage and Tobacco was the stand-out sector with 16 per cent revenue contribution in December 2021.
- **MSCI AC Asia Pacific Ex Japan:** RTL increased 28 per cent YoY, buoyed by a poor 2020 (owing to the impact of COVID) and Korea's return. RTL was down 30 per cent in comparison to 2019 levels.
- **MSCI Emerging Markets:** A similar story to APAC, RTL was up 40 per cent with more than 75 per cent of return contributed by special stocks.

iBoxx Fixed Income Index Return

The growth story in terms of securities lending returns to lendable was dominated by corporate bonds, with increased demand to borrow and short corporate debt. Year-on-year indexed utilisation and RTL declined for global governments and US Treasuries.

The table below (fig 2) shows the breakdown of securities lending returns to lendable for FY 2021 versus FY 2020 across iBoxx Fixed Income indices:

- **iBoxx USD Treasuries:** Increased asset values resulted in a 15 per cent drop in YoY RTL, with GC bonds contributing 97 per cent of the return.
- **iBoxx Global Government:** Overall RTL was down 11 per cent, while utilisation saw a 3 per cent YoY drop-off.
- **iBoxx EUR Sovereigns:** YoY RTL was flat at 4.3 bps. However, utilisation saw a slight uptick in comparison to
- 2020 levels.
- **iBoxxUSD Liquid Investment Grade:** This continued with the YoY uptrend, with RTL rising by 31 per cent and with 72 per cent of the revenue contributed from bonds with 7+ years to maturity in December 2021.
- **iBoxx USD Liquid High Yield:** RTL increased 14 per cent YoY, driven by nearly 41 per cent specials revenue. Utilisation grew by 45 per cent YoY.
- **iBoxx EUR Corporates:** RTL increased steadily since the end of Q3, with an YoY bump of 4 per cent. Nearly 70 per cent of the revenue was from BBB-rated credit in December 2021.

Fig 2: Breakdown of securities lending returns to lendable for FY 2021 vs FY 2020 across iBoxx Fixed Income indices

Index	SL Returns to Lendable (bps) 2021	SL Returns to Lendable (bps) 2020	Year-on-Year Change	Year-on-Year Change in Indexed Utilisation	Revenue Contribution by Warm/Special Securities
iBoxx USD Treasuries	4.7	5.6	-14.9%	-9.5%	2.7%
iBoxx Global Government	4.5	5.0	-11.1%	-3.2%	2.1%
iBoxx EUR Sovereigns	4.3	4.3	-0.9%	4.0%	3.1%
iBoxx USD Liquid High Yield	2.0	1.7	14.1%	45.0%	70.9%
iBoxx EUR Corporates	1.9	1.8	4.3%	45.0%	21.6%
iBoxx USD Liquid Investments Grade	0.4	0.3	31.2%	59.0%	6.1%

Source: IHS Market Securities Finance and IHS Market iBoxx Indices. For Iboxx Indices, we report the Year-on-Year changes in Indexed Utilisation

Latest industry appointments at BNY Mellon, Fidelity Investments and WeMatch

Bill Browne has joined Mitsubishi UFJ Trust and Banking Corporation as vice president in the Trust division.

Based in New York, he will be part of the business management unit supporting global securities lending and custody solutions, fronted by Anthony Mogavero.

Browne moves from Deutsche Bank where he worked for 12 years, latterly as product manager for cash management, and becomes the latest in a series of Mitsubishi appointees to switch from Deutsche.

Browne was global COO for securities services at Deutsche Bank from 2014 to 2016 and regional COO for cash management for the Americas at the organisation until 2018, providing USD cash management and transfer services to institutions and corporates.

Prior to this, he held roles at BNY Mellon and Morgan Stanley.

BNY Mellon has announced the appointment of three relationship managers as the firm expands its clearance and collateral management (CCM) client coverage team in EMEA.

Stuart Bird and Hadley Pritchard will take on their new positions at the firm's London office, while Karen Van Cauteren will be based in Brussels.

All three hires will focus on developing opportunities to enhance client relationships with BNY Mellon's global client base.

Standard Chartered appoints Roel Louwhoff

Standard Chartered has announced the appointment of Roel Louwhoff as chief technology, operations and transformation officer.

Based in Singapore, Louwhoff will lead the company's transformation, operations and technology agenda from 1 April 2022.

The announcement follows the current group chief operating officer David Whiteing's decision to leave the Bank and relocate back to Australia.

Joining the Bank in November 2021 as group chief digital, technology and innovation officer, Louwhoff has led technology, innovation and operations in his previous roles and is positioned to drive the bank's transformation to achieve greater alignment, efficiency, and client-focus.

Prior to joining Standard Chartered, Louwhoff was chief operations officer and chief transformation officer at ING's Amsterdam office during his seven years with the company.

He also held several senior positions at BT between 2004 and 2013, most recently as CEO sports technology.

Speaking on the announcement, Bill Winters, group CEO, says: "With David's departure, I have decided to combine our operations and technology teams to enable us to move faster, harness synergies, and accelerate the delivery of our strategy and transformation across the bank. I have asked Roel to lead us in turbocharging this change, and we thank David for his leadership in establishing a strong foundation, from which we will now build."

They will report regionally to EMEA head of CCM and global head of product strategy Gesa Benda, and globally to global head of CCM client coverage Eric Badger.

Bird joins BNY Mellon from Goldman Sachs Asset Management, where he most recently served as vice president in global liquidity solutions.

In his new position, Bird will be responsible for further developing collateral relationships with some of the company's largest and strategic clients.

Van Cauteren joins the firm from Euroclear, where she spent more than 14 years in a variety of sales and relationship management roles.

She will focus on some of the largest collateral clients of BNY Mellon's European Bank in addition to covering some of BNY Mellon's global clients in the EMEA region.

Pritchard joins the company from ABN AMRO, having spent 15 years in a number of securities lending roles, most recently serving as executive director, securities finance and global markets.

He will focus on enhancing BNY Mellon's coverage of agent lending and asset management clients across the EMEA region.

Fidelity Investments has appointed Ryan Joyce as senior international equity trader within Fidelity Agency Lending.

Based in Boston, Joyce will aid the management and distribution of the international equity book of business during Europe, the Middle East and Africa (EMEA) trading hours.

He will focus on expanding existing distribution channels and opening new opportunities in the APAC and EMEA regions, while reporting to head of fixed income and international equity trading Jon Whiting.

Prior to Fidelity, Joyce spent 14 years at State Street Bank within its global markets and global advisors divisions.

Most recently, he was head of the international equity lending desk in the Americas for the agency lending programme.

He also worked in portfolio administration for State Street's investment management arm, State Street Global Advisors.

WeMatch has announced the hire of Guillaume Tellez as chief financial officer.

Tellez's appointment reflects WeMatch's continued momentum and global expansion following the company's Series B funding round and the executive additions of Michael Sabbah and Shane Martin.

Prior to joining WeMatch, Tellez spent 10 years at J.P. Morgan in various roles, most recently as head of partnerships for international consumers in the bank's London office.

From 2016 to 2021, he led all principal strategic investments in European start-ups on behalf of J.P. Morgan, where he gained transaction and board experience.

Earlier in his career, Tellez acted as board observer for a number of companies including Proxymity, Wematch.live, CurveGlobal Limited and Mosaic Smart Data.

securitiesfinancetimes
The primary source of global securities finance news and analysis
Issue 295 01 February 2022
Tackling settlement failure in securities finance
EquiLend's head of post-trade Iain Mackay speaks to Bob Currie about the release of Settlement Monitor and how the company is helping clients to adapt to the settlement discipline regime under CSDR
EQUILEND SPIRE POWERED BY STONEWAIN
Flexible. Modular. Customizable. A Bespoke Technology Solution for All Your Securities Finance Business Needs

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
accounts@securitiesfinancetimes.com
+44 (0) 208 075 0930

Designer: James Hickman
jameshickman@blackknightmedialtd.com

Marketing director: Steven Lafferty
design@securitiesfinancetimes.com

Published by Black Knight Media Ltd
Copyright © 2021 All rights reserved

Tailor-made solutions in Prime Finance.

Visit us at **www.zkb.ch**

We are the perfect choice when it comes to prime finance. Our central Prime Finance Desk will deliver a bespoke solution that is sure to lead you to your desired goal in the shortest time. Nowhere else will you find more expertise than on +41 (0)44 293 62 62 or at primefinance@zkb.ch.

Zürcher Kantonalbank

Analyze. Understand. Monitor.

Leverage our experience to optimize your program performance, enhance investment decisions, and confirm good governance through powerful tools and analytics.

- Largest securities lending dataset includes corporate actions, credit consensus, ETF collateral lists, liquidity and more
- Global securities lending flows, borrow costs and market share updated intraday
- Diverse signals to identify short squeezes, capture alpha, and refine risk management
- Robust performance measurement tools exceed enhanced industry standards
- Full-service governance, performance, risk, and operational assessments

Learn more at ihsmarkit.com/SecuritiesFinance

The global leader in securities finance solution

671560176-0421-ZT

CONTACT US | MSF-Sales@ihsmarkit.com

NORTH AND SOUTH AMERICA	EUROPE, MIDDLE EAST AND AFRICA	ASIA PACIFIC	JAPAN
+1 800 447 2273	+44 1344 328 300	+604 291 3600	+81 3 6262 1887