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Out of the dark, into the fog?

Bob Currie examines the SEC's push for securities lending transaction reporting through Rule 10c-1

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Commission extends UK CCP equivalence

The European Commission has confirmed that it will extend equivalence for UK central counterparties through to 30 June 2025.

In the wake of Brexit, the Commission has voiced concerns that the significant reliance of the EU financial system on services delivered by UK-based central counterparties (CCPs) could present risks for financial stability.

In September 2020, it enacted a time-limited equivalence decision for UK CCPs running until 30 June 2022 to offset potential risks to financial stability. In doing so, market participants in the EU have been encouraged to reduce their exposures to UK-based CCPs.

The European Commission formed a working group during 2021 — alongside the European Central Bank, European Supervisory Authorities and the European Systemic Risk Board — to develop a strategy for transferring derivatives clearing from UK to EU CCPs.

On 10 November 2021, EU commissioner for financial stability, financial services and Capital Markets Union Mairead McGuinness stated that the Commission would propose an extension of the equivalence decision, recognising that the working group requires more time to complete its work and stakeholders require more time to debate its recommendations.

This extension, until the end of June 2025, has been confirmed through today's announcement. The Commission predicts that a further extension after this date is unlikely.

During the second half of 2022, the Commission will formulate a series of measures to develop central clearing in the EU.

This will include steps to enhance domestic capacity, delivering a more cost efficient and competitive clearing landscape in the EU and reinforcing liquidity at EU clearing venues.

Also, it will put forward measures to further strengthen risk management standards at EU CCPs and supervisory oversight of CCP activities within the EU.

EU commissioner Mairead McGuinness, says: "Ensuring financial stability and further developing the Capital Markets Union are our key priorities. Central clearing parties play an important role in mitigating risk in the financial system.

"The Commission plans to come forward with measures to reduce our excessive dependence on systemic third-country CCPs, and to improve the attractiveness of EU-based CCPs while enhancing their supervision. We call upon all relevant stakeholders to engage in the consultation being launched today."

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[1] *Global Investor* ISF Survey 2020 – Securities Finance Agency Lending named Most Innovative Lender

EquiLend reports a record year for securities lending

EquiLend reports that 2021 was a record year for its securities finance trading business, generating its highest annual trading volumes in a number of categories and driving double-digit growth in volumes in all regions apart from the Asia Pacific (which rose 7 per cent).

This period delivered the EquiLend's strongest annual trade volumes to date, with notional value rising 12 per cent over 2020.

The global securities lending market generated US$9.28 billion in revenue during 2021 on the back of favourable market conditions, according to DataLend, the company's market data arm.

Mike Norwood, EquiLend global product owner for trading services, indicates that rising equity markets and high volatility levels triggered greater activity across its full suite of trading activities.

EquiLend's clearing services loan market reported a 43 per cent increase in client activity over the year, with volumes spread across exchange-traded funds, high-rate GC and hard-to-borrow trades, with a heavy focus in meme stock and special purpose acquisition company (SPAC)-related activity.

Trading volumes in ETFs rose 30 per cent YoY on the NGT platform. Fixed income trading volumes also rose, with corporate debt trade volume up 30 per cent YoY.

Having delivered significant advances in automation in GC trading for lender-to-borrower activity, Norwood indicates that EquiLend is committing technology investment to bring non-GC and broker-to-broker flow into a more digital environment. This investment is already translating into strong trading volumes in these areas during 2021.

This rise in non-GC trading activity on NGT was evidenced globally, with the number of unique securities trading at above 50bps rising 15 per cent during 2021.

"NGT's gains of over 40 per cent signal a more robust market for electronic trading as well as the composition of securities eligible for electronic trading shifting to incorporate more of our clients' overall books," says Norwood.

The EquiLend Swapimization service for equity total return swap (TRS) trading has continued to attract new clients and the company aims to develop the service to support the planned launch during Q1 of a organised trading facility (OTF)-compliant offering to complement the existing US and multilateral trading facility (MTF) platforms.

"As a product, we welcome [this] diversification and will continue to invest in platform improvements to reflect trading behaviour and encourage automation and straight-through processing across all trade types," says Norwood.

EquiLend has now launched its Settlement Monitor service to support clients in sharpening their settlement efficiency for SFTs and meeting their settlement discipline obligations under the EU Central Securities Depositories Regulation (CSDR).

ISLA and ICMA release best practice guidelines after CSDR implementation

The International Securities Lending Association (ISLA) has published its CSDR Penalties Best Practice Guidelines for the cash penalty regime.

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Its release comes as the much-anticipated Central Securities Depositories Regulation (CSDR) settlement discipline regime went live on 1 February.

The guidelines aim to assist market participants with the implementation of CSDR ensuring that penalties are fairly distributed and applied to the party at fault.

The ISLA Market Practice Steering Group have developed and validated the best practice guidelines which include: recommendations on timeframe and minimum threshold for claims, netting of claims, partialling, liability cap, sale notifications and collateral movements.

The International Capital Market Association (ICMA) has also released its guiding practices in relation to the CSDR implementation, to aid the bond and repo markets.

Many of the opportunities discussed in the paper are covered in existing best practices, in particular the European Repo and Collateral Council (ERCC) Guide to Best Practice in the European Repo Market.

Alongside the paper, the ERCC has published a compilation of best practice recommendations in support of settlement efficiency, extracted from the guide and endorsed by the ERCC Committee.

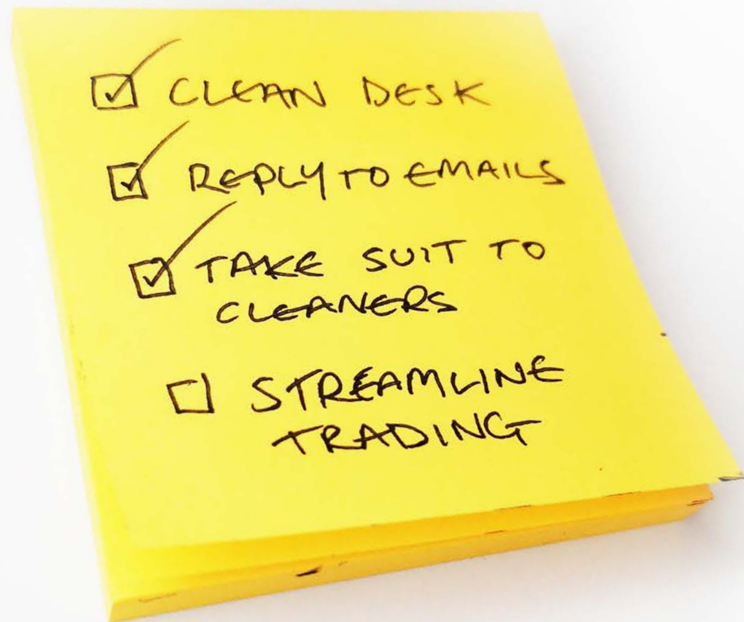
Transcend launches solution to integrate ESG into collateral management

Transcend, a provider of analytics, optimisation, and automation for collateral, liquidity, and funding, has launched a solution to integrate ESG criteria into collateral decisions and analytics processes.

Firms can now input ESG criteria into Transcend's optimisation engine for collateral recommendations that meet ESG requirements while improving performance.

Transcend's ESG capabilities allow clients to centrally store ESG criteria, alongside ESG performance metrics and collateral schedules, for robust inventory management, rich portfolio analytics and seamless booking automation.

Additionally, it can systematically run intraday or ad hoc validation and sufficiency testing to assess whether collateral received is in line with client and internal ESG requirements.



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Furthermore, it will flexibly integrate with any preferred ESG data provider, according to Transcend.

Bimal Kadikar, CEO at Transcend, comments: "We understand how critical it is to stay ahead of the needs of our customers and partners and develop truly future-generation solutions. With ESG impacting all aspects of the financial services ecosystem and becoming increasingly present in collateralised businesses, integrating ESG data into Transcend's infrastructure was a natural next step in our innovation strategy."

Todd Hodgin, global head of product at Transcend, adds: "Our new ESG solutions deliver a configurable solution to integrate these criteria into the broader Transcend product suite. We are proud to deliver the capabilities required to help our clients efficiently and effectively meet requirements today, while offering the flexibility needed to adapt to best practices as they evolve in the future."

Global securities lending revenue drops 12%

The global securities finance industry generated US$703 million in revenue for lenders in January 2022, according to DataLend. This represented a 6 per cent contraction from December 2021 and a 12 per cent decrease year-on-year.

Global broker-to-broker activity, where broker-dealers lend and borrow securities from each other, totalled an additional US$191 million in revenue in January 2022, a 32 per cent decrease from January 2021.

According to DataLend, the decrease in lender-to-broker revenue over 2021 was driven by equities in Europe, the Middle East, Africa and North America, where the average fee decreased by 31 per cent from December 2021 and 30 per cent YoY.

January 2021 was an especially active month for the securities lending market, attributed to the market-wide meme stock frenzy as well as anticipation of the DuPont and International

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In the fixed income lending market, global revenue generated from government debt saw a 13 per cent increase to US$140 million, while corporate debt saw an increase of 117 per cent YoY to US$49 million.

The increase in corporate debt revenue was driven by on-loan values and fees rising by 32 per cent and 59 per cent, respectively.

The top five earners in January 2022 were Lucid Group (LCID), Digital World Acquisition Corp (DWAC), BHP Group (BHP AU), iShares iBoxx $ High Yield Corporate Bond ETF (HYG) and Krafton (259960 KS). The five securities in total generated over US$83 million in revenue in the month.

OCC securities lending average daily loan value rises

Securities lending average daily loan value through OCC has grown 24.4 per cent year-on-year to US$132.1 billion for January 2021.

However, stock loan cleared value is slightly down month-on-month, dipping from US$147.7 billion in December 2021, which was a monthly record for the Chicago-based clearing entity.

In terms of transaction volumes, OCC's securities lending CCP activity grew by 57.6 per cent YoY to 177, 228 trades in January 2022.

For January, total cleared futures and options contracts through OCC rose 6.4 per cent YoY to 897.6 million, which is the highest on record for the month of January.

The clearing entity twice registered new single day total volume records during the month: daily futures and options volumes hit new highs of 63.5 million on Friday 21 January and 63.7 million on Monday 24 January.

For options contracts, total cleared contract volume rose 6.3 per cent YoY to 891.4 million for January.

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Tradeweb reports YoY increase for repo

Tradeweb, a global operator of electronic marketplaces, has reported an increase in global repo activity for January 2022.

Repo daily average volume (ADV) was up 5.5 per cent to US$346.5 billion for the month of January, compared to January 2021.

The addition of new clients on the platform continued to support growth in global repo activity, even as elevated usage of the Federal Reserve's reverse repo facility weighed on the overall repo market.

Furthermore, retail money markets activity remained pressured by the low interest rate environment.

US government bond ADV climbed by 28.4 per cent YoY to US$146.6 billion and European government bond ADV had increased 22.2 per cent YoY to US$37.0 billion.

This was supported by strong client activity in institutional and wholesale markets; the continued momentum of session-based trading and streaming protocols; and the addition of the Nasdaq Fixed Income business.

Robust issuance, along with heightened rates market volatility, drove record European government bond trading.

In equity highlights, US exchange-traded funds (ETF) ADV increased by 70.5 per cent YoY to US$9.6 billion and European ETF ADV was up 21.3 per cent YoY to US$3.7 billion.

The record client activity benefited from further adoption and elevated market volatility.

Tradeweb reported a total trading volume of US$22.3 trillion for January 2022 across its electronic marketplaces for rates, credit, equities and money markets.

In US credit trading, fully electronic share for US high grade and US high yield TRACE was 12.3 per cent and a Tradeweb record of 8.2 per cent respectively.

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Out of the dark, into the fog?

In the first of two articles, Bob Currie examines the SEC’s push for securities lending transaction reporting through Rule 10c-1 and the industry’s reaction through the consultation process

The Securities and Exchange Commission (SEC) published a proposed rule at the end of 2021 that will, if enacted, require lenders of securities to report the material terms of securities lending transactions to a registered national securities association (RNSA).

The proposed Exchange Act Rule 10c-1 (the 'Proposed Rule') upholds a Congressional mandate in the Dodd-Frank Act to promote transparency around securities lending transactions. This requires that market participants, financial supervisors and the public have access to fair, accurate and timely information relating to loan transactions.

Few will argue with SEC chair Gary Gensler's assertion that securities lending and borrowing "is an important part of our market structure". However, some may question his claim that currently "the securities lending market is opaque". Others may feel that the SEC is embarking on a well-intentioned drive for transparency in a rather convoluted way — and one that does not fully align with the current operation of securities lending markets.

In commenting on the Proposed Rule, Gensler says: "In today's fast-moving financial markets, it's important that market participants have access to fair, accurate and timely information. I believe this proposal will bring securities lending out of the dark."

Outlining the case for a new reporting regime, the SEC argues in its 10c-1 Fact Sheet that "there is limited information available to market participants, the public and regulators about securities lending in the US. Data on the market is incomplete, unavailable to the general public and not centralised." The gaps, it believes, create inefficiencies in the securities lending market and make it difficult for borrowers and lenders to know whether the terms of their loans are consistent with market conditions.

Under the proposed new rule, any person that loans a security on behalf of itself or another person would be deemed to be a "lender", including banks, insurance companies and pension plans, and thereby required to report.

To track the transaction, the RNSA will assign a unique transaction identifier to each reported securities lending trade. Modifications to the trade must also be reported to the RNSA.

Under this proposal, the RNSA will publish selected data relating to each transaction, along with any subsequent modifications. It will also publish aggregated data providing details of on-loan securities and securities that are available to loan.

Currently, one organisation, the Financial Industry Regulatory Authority (FINRA), has been approved by the SEC as a RNSA.

The Proposed Rule was published in the Federal Register, the daily journal of the US government, on Wednesday 8 December (File No: S7-18-21), giving industry participants a 30-day consultation period to provide feedback on the proposal.

FINRA says that it strongly supports the proposal, endorsing the Commission's view that public dissemination of securities lending information will, among other benefits, improve price discovery in the securities lending market, reduce information asymmetries, close data gaps, and increase market efficiency.

In fronting FINRA's response to the SEC 10c-1 consultation, Marcia Asquith, FINRA's executive vice president, board and external relations, says that the proposal will provide data that could be used for important regulatory functions, including facilitating and improving FINRA's monitoring of member activity and surveillance of the securities markets (see box, p 16).

But will 10c-1 achieve those objectives? Many respondents to the SEC consultation confirm they are supportive of additional transparency, but some question the current design of the reporting regime. A number of market participants have privately questioned whether FINRA — as a government-authoritised regulatory organisation that oversees US broker-dealers — is an appropriate agency to serve as RNSA in gathering and publicly reporting securities lending data. Others question the abbreviated timeframe for public consultation, giving respondents just 30 days to share their feedback.

The Risk Management Association (RMA), for example, indicates that it supports the SEC's efforts to increase market efficiency and deliver enhanced regulatory monitoring that may boost market integrity. However, in general terms, it believes that the Proposed Rule is unduly broad and unclear in scope. Some proposed reporting elements may be unavailable or operationally impractical to gather and report within the proposed timeframes. The Proposed Rule will also present an unnecessary transition burden in delivering pricing transparency and meaningful regulatory oversight.

The RMA says that it appreciates the SEC's desire to move

Ready, willing and able, FINRA says

The Financial Industry Regulatory Authority says that, among other benefits, 10c-1 data would be valuable to help regulators reconstruct market events

In fronting FINRA's response to the SEC 10c-1 consultation, Marcia Asquith, FINRA's executive vice president, board and external relations, says that the 10c-1 Proposed Rule will provide data that could be used for important regulatory functions, including improving FINRA's in-depth monitoring of member activity and surveillance of the securities markets. This additional data would "facilitate better surveillance by FINRA for regulatory compliance by its members" and "improve its ability to enforce" relevant regulations, including providing FINRA with the ability to "notify another regulator as appropriate."

FINRA indicates, in line with the SEC's position, that the data would be valuable to help regulators reconstruct market events in the future, for example by providing a "more timely and fulsome view of who was entering into new loans and who was no longer borrowing securities" during a market event.

FINRA also expects that reported information relating to the aggregate quantity of shares on loan and available to loan would be useful in monitoring levels of short selling activity occurring in a security and determining when a security is hard to borrow.

As the only current RNSA, FINRA says that it stands "ready, willing, and able" to facilitate this important initiative to improve transparency and enhance the regulatory audit trail in the securities lending market. It indicates, in its response to the SEC consultation, that it has extensive experience in establishing and maintaining systems that are designed to capture and disseminate transaction information — similar to the system contemplated by the Commission under the Proposal.

forward quickly with this proposal and to avoid undue delay. However, given the scope, significance and breadth of the Proposed Rule, the RMA believes that the 30-day comment period is inadequate, particularly given this coincided with the year end and the holiday season. Some RMA members registered their concern that they did not have adequate time for data gathering or analysis to provide the Commission with meaningful and well considered feedback.

BlackRock, the US-based asset management giant, indicates that it is supportive of the SEC's efforts to bring more transparency to the securities lending markets. However, it identifies areas where it believes the proposal should be modified to ensure any new reporting requirements align with the structure and operational framework of the securities lending markets.

The asset manager advises that the SEC should amend the proposal to make the implementation timeline and costs more manageable, to extend access to publicly available data, and to meet the regulator's ambition to simplify and harmonise transaction reporting standards.

Reporting timeframe

A focal point for respondents' attention in the 10c-1 consultation is the requirement that lenders report trade details to an RNSA within 15 minutes of the time of the trade.

Fran Garritt, RMA director of securities lending and market risk, and Mark Whipple, chair of the RMA's Council on Securities Lending, recommend that the SEC should revise the 15-minute reporting requirement in favour of end-of-day reporting on a next day (T+1) basis. The RMA believes that the nature of the market makes 15-minute reporting inappropriate for several reasons.

Specifically, the RMA Council advises that reporting on an intraday basis for securities lending transactions is operationally impractical

and is likely to deliver little or no additional value compared with end-of-day reporting. This will exponentially increase the number of execution and modification reports, potentially resulting in the submission of incomplete or erroneous data. Additionally, it will limit time for reconciliation and require that firms invest in expensive real-time data capture and reporting systems to fulfil reporting obligations.

With this in mind, the RMA indicates that a T+1 standard will address the SEC's transparency concerns at a lower implementation cost and will align more closely with the existing Securities Financing Transactions Regulation (SFTR) reporting regime operating in the EU and UK. To reinforce this recommendation, it states that real-time reporting would be inappropriate, or at least highly burdensome, given that many terms in the securities loan trade are subject to intraday revision or are not finalised until end of day.

BlackRock also advises that the Commission opt for T+1 securities lending reporting instead of the proposal's requirement to report within 15 minutes of the time of trade. Intraday reporting will be of "low informational value" that is unlikely to achieve the potential benefits that the SEC highlights, the fund manager says, given the majority of securities loans are at stable pricing levels throughout the day.

The additional cost borne by lenders of meeting the 15-minute reporting window is significant compared to next-day reporting on both an initial and ongoing basis, BlackRock notes. Additionally, the nature of the securities lending markets poses a number of logistical hurdles that will make intraday reporting impractical.

Pirum COO and head of Americas Robert Zekraus says that while near real-time data may be warranted in other financial markets where the price of the transaction is generally fixed at point of execution, it is not appropriate in the context of securities lending.

For securities lending transactions, it is typically the fee or rebate rate that primarily determines the earnings of both parties and, although an initial rate will be agreed, this rate can be renegotiated at any point during the lifetime of the loan. These 're-rates', Zekraus says, can take place daily and are driven by the natural supply and demand dynamics of the on-loan security. Consequently, there is not a strong correlation between the time that the securities loan is first executed and the economic outcome for both parties over the lifecycle of the trade.

With this in mind, Zekraus believes that the proposed 15-minute reporting window would add substantive operational burden and additional cost to all market participants, without providing any significant transparency benefits. Accordingly, in the EU Markets in Financial Instruments Regulation (MiFIR) securities financing transactions were classified as "non-price forming" and were excluded from pre and post-trade transparency reporting requirements.

Boaz Yaari, CEO of securities lending fintech Sharegain, indicates that it is no trivial task, particularly from a technological standpoint, to collect the relevant data required by the proposed 10c-1 Rule and to deliver it to the RNSA in a consumable format that will enable a unique identifier to be assigned to the loan transaction. This must then be communicated back to the reporting entity with an assigned identifier and updated on the reporting entity's system.

Sharegain accepts that some existing RNSA reporting requirements, such as FINRA's TRACE timeframes for corporate bonds or agency debt securities, do contemplate a 15-minute turnaround from the time of execution. However, Yaari suggests that the number of data elements mandated by Rule 10c-1 makes reporting under the Proposed Rule substantially more complex, particularly since there are multiple factors to consider as part of a securities loan (see below). With these considerations in mind, Sharegain recommends decreasing the frequency of reporting to twice-a-day or end-of-day reporting.

Price formation

The SEC also proposes that RNSAs should publish price information and other details of securities lending transactions on an intraday basis, comparable to a consolidated tape employed to publish intraday pricing for liquid securities traded at certain cash market securities execution venues for example.

RMA's Garritt and Whipple comment that, unlike cash market sales of securities, securities lending transactions are open or term-based credit exposures that are typically managed and negotiated as part of broader credit relationships documented under master agreements. "The pricing arrangements are commonly party specific, contract specific and not directly dependent on the market price or the availability of the security being loaned," they say. These may also be shaped by the counterparty credit risk, type and amount of collateral provided, the ability to provide and deploy cash collateral and other factors specific to the relationship.

With this, pricing for two loans of the same security executed at

roughly the same time may differ significantly. “There is no reason to believe that securities lending transactions are fully fungible or that pricing can be represented in a single “spot” market price,” says the RMA.

Building on this point, Adrian Dale, head of regulation, digital and market practice at the International Securities Lending Association (ISLA), observes that “fee and rebate data, without consideration of firm(s) collateral requirements, counterparty/asset exposure(s), applied lending restrictions or jurisdictional obligations, may create an unrealistic and misleading portrayal of prevailing rates.” ISLA is clear in its response to the 10c-1 consultation that fee/rebate data could not be relied upon to support price discovery in the same manner as other markets. “Indeed, when we discuss other regulations, our position has been that securities lending fee data does not support price discovery,” says Dale.

In elaborating, Dale tells Securities Finance Times that the SEC’s objective, in constructing a consolidated tape for securities lending transactions utilising a 15-minute reporting regime, may provide an incomplete or misleading view of securities lending pricing dynamics to regulators and investors. As noted, price determination in a securities lending transaction may be shaped by a range of factors specific to the individual lending relationship — including counterparty exposure and collateral selection. There is a danger

Price formation in securities lending markets

Intraday data could mislead investors as to the source of GC pricing deviations, which may be misinterpreted as a byproduct of market dynamics, rather the broader negotiations between respective borrowers and lenders on GC, BlackRock says

BlackRock’s managing director of the global public policy group Elizabeth Kent and managing director of securities lending Roland Villacorta indicate that, in general, most of the securities lending market encompassing general collateral (GC) lending does not exhibit intraday pricing changes. Given the supply of GC lendable securities is more than sufficient to satisfy borrowing demand, the pricing of such securities loans is unlikely to change significantly intraday or even day-on-day.

“For GC securities, which account for 79 per cent of transactions and 87 per cent of market value of those transactions in the US equity lending market, when the terms of the loan transaction are agreed by the parties on the loan’s trade date, such terms virtually always remain valid for at least that day,” say Kent and Villacorta.

In fact, the pricing of general collateral loans between a lender and borrower often do not change over the course of months or even years. And while loans of “specials”, with a more limited supply and higher demand, will see more price movement day-on-day between a lender and borrower, they are also unlikely to see significant price movement intraday.

Additionally, since the vast majority of loans are “open” (i.e.,without an agreed upon termination date) and their initial terms are valid for just one day, the incremental value of intraday data relative to next-day is likely to be marginal at best for market participants. Lenders and borrowers will be able to use next-day reporting if they choose to renegotiate loan terms later in the life of the loan. With respect to loans of US Treasuries, the Commission should consider that the size of such loans is generally agreed during the first half of the trading day, notes BlackRock, with a single lending spread for all US Treasury loans of the same type between a specific borrower and lender set later in the day.

“As a result of these dynamics, we believe that by requiring next-day reporting the Commission can still achieve the benefits of enhanced transparency in the securities lending markets without unintended consequences,” BlackRock says.

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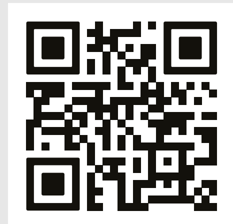

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that these factors are not captured fully by the 10c-1 reporting exercise. In this regard, a consolidated tape utilising published fees and rebates is unlikely to provide an accurate and effective aid to price discovery for securities lending markets.

BlackRock's managing director of the global public policy group Elizabeth Kent and managing director of securities lending Roland Villacorta indicate that, in general terms, most of the securities lending market encompassing general collateral (GC) lending does not exhibit intraday pricing changes. Given the supply of GC lendable securities is more than sufficient to satisfy borrowing demand, the pricing of such securities loans is unlikely to change significantly intraday or even day-on-day.

"For GC securities, which account for 79 per cent of transactions and 87 per cent of market value of those transactions in the US equity lending market, when the terms of the loan transaction are agreed by the parties on the loan's trade date, such terms virtually always remain valid for at least that day," say Kent and Villacorta (see box, p 18).

Reflecting on these points, the RMA notes that while the SEC may look to existing reporting regimes as reference points for its newly proposed reporting system, important differences in how prices are formed in securities lending and in cash markets for securities dictates that the Commission needs to seek a different approach to transaction reporting to that outlined in the Proposed Rule.

Cost-Benefit Considerations

In the Proposing Release, the SEC predicts that implementing 10c-1 will involve an initial implementation cost of US$371,000,000, for just 409 market participants, and annual direct compliance costs of US$140,000,000 thereafter (Fig 1).

Additionally, for the RNSA (namely FINRA, the only confirmed RNSA) this will impose a one-off cost of US$3.5 million, along with annual ongoing expenses of US$2.48 million. This includes costs associated with creating and maintaining the reporting infrastructure, entering into written agreements with lenders, and smaller costs deriving from disseminating this reported information to the public (SEC, Proposing Release, Release No. 34-93613; File No. S7-18-21, p 143).

However, these forecasts may be an underestimate. Edmon W Blount, executive director at the Centre for the Study of Financial Market Evolution, indicates that these predictions are unlikely to reflect the full cost since the RNSA is also entitled to recover its costs from market participants that report securities lending transactions (typically, the lenders and agents).

If Rule 10c-1 is adopted, Blount anticipates that FINRA will pass compliance costs through to lenders and agents in its fees. In turn, lending agents will pass the costs of compliance through to their lending clients.

Moreover, under the terms of the Proposing Release, the RNSA may ask for permission to sell this transaction information on to other vendors — and these vendors, in turn, may sell performance metrics and analytics based on the data. A full evaluation of these anticipated costs has not yet been released by the SEC.

Blount's message, however, is that these cost implications may have detrimental consequences for liquidity and for the breadth of

Fig 1: Quantified compliance costs for systems development and maintenance incurred by lenders and reporting agents

	Number of firms	Total Initial Industry Cost (millions)	Total Annual Industry Cost (millions)
Providing Lending Agents	3	$3.5	$1.3
Non-Providing Lending Agents	34	$19.6	$7.3
Reporting Agents	94	$108.0	$41.0
Self-Providing Lenders	139	$160.0	$60.0
Lending that Would Directly Employ a Reporting Agent	139	$80.1	$30.0
Total	409	$371.2	$139.6

Source: SEC, Release No. 34-93613; File No. S7-18-21, p 143

lending options available in the market. "Most beneficial owners participate in securities lending to generate marginal income," says Blount. "If lenders are forced to bear the final cost of compliance with Rule 10c-1, they may find their margins so thin that they can no longer justify their lending activities, pulling their liquidity from the market."

The RMA similarly questions whether this is a cost that can and should be borne by the securities lending market, and principally its lender and lending agent communities. "As the Commission acknowledges in the Proposing Release, securities lending in the US is already a low-margin business, and this is true in particular for lending agents that are subject to bank capital requirements and typically guarantee beneficial owners against borrower defaults," says the RMA.

According to Ed Blount, beneficial owners are the most at risk and yet the least well-served by the proposed 10c-1 disclosures. "The free 10c-1 public disclosure, as specified, lacks critical fields for benchmarking the risk-adjusted returns of securities lenders," he observes. "As a result, the 10c-1 data, though perhaps more expansive, will not be useful to beneficial owners. Boards of directors and trustees will still expect monthly benchmark reports and agents will still have to subcontract for solutions."

Consequently, beneficial owners are unlikely to feel the advantage of the 10c-1 data, Blount believes, despite subsidising its collection and dissemination to regulators and borrowers. As such, a free-rider problem may arise if the new data flows mainly benefit borrowers in the lending chain and not lenders. Only an alternative system, he believes, can close the gaps to avoid the imposition of a costly and ineffective disclosure rule.

Closing thoughts

Respondents to the SEC consultation on Proposed Rule 10c-1 have in many cases indicated that they are supportive of the Commission's ambitions to enhance transparency of securities lending markets, to increase market efficiency and to close data gaps.

However, respondents — in their consultation responses to the SEC and in discussion with Securities Finance Times — have recorded that fundamental changes to the existing design of the 10c-1 reporting framework are necessary to achieve these objectives.

In the first part of this article, respondents have focused on pricing dynamics in SBL markets, the value of intraday reporting (and particularly a T+15 minute reporting window for SBL transactions) and the potential cost implications of 10c-1 implementation. A number of respondents also say that the timeframe for public consultation was unnecessarily short.

As one senior industry figure told SFT, the 30-day consultation window for 10c-1 was significantly shorter than its standard consultation timeframe, presenting an air of 'fait accompli' around the proposal and prompting concerns that the SEC will not take full account of the industry's recommendations in moving the Proposed Rule through to implementation.

In the second part of this article, published in SFT 297, market participants will reflect on the need to clarify the scope of the 10c-1 reporting regime (in terms of what constitutes a securities loan, in terms of extraterritorial reach) and the requirement to report on-loan and available-for-loan securities. They also discuss options for delegated reporting, application of technology, and the lessons that can be learnt from implementation of SFTR in the EU and UK. Alongside this, respondents highlight the need for delineation of 'wholesale' and 'retail-driven' elements of the securities lending market in finalising the 10c-1 reporting requirements.

There seems little doubt the 10c-1 reporting regime will be implemented. The priority for market participants is to ensure that the 10c-1 design facilitates a transparent and efficient securities lending market in line with the transparency objectives that the SEC is trying to achieve.

The SEC intends, among other objectives, that 10c-1 should improve price discovery in the securities lending market and reduce information asymmetry. FINRA indicates, in line with the SEC's position, that the reported data will be valuable to help regulators reconstruct market events — for example by providing a more timely and complete view of who is entering into new loans and who is no longer borrowing securities during a market event. Important revisions to the existing 10c-1 design will be necessary to ensure it achieves its planned objectives.

A difference of objectives: SFTR versus 10c-1

Martin Walker, head of product, securities finance and collateral management at Broadridge, comments on contrasting US and EU approaches to securities finance transaction reporting

“Not again” is a cry being heard across the securities lending business as the Securities and Exchange Commission (SEC) seeks to introduce mandatory reporting of securities lending trades in the US under Rule 10c-1. Many securities lending businesses, which often operate on a global basis, have yet to recover from the trauma of the introduction of the EU’s Securities Finance Transaction Regulation (SFTR).

A large part of the SFTR trauma came from the sheer complexity of complying with the regulation. Up to 155 fields had to be reported for each transaction, over 10 times as many as under rule 10c-1. Many of those fields were not even stored in the systems of those having to do the reporting and the dual-sided nature of the reporting created the need for another reconciliation to be put in place between each party involved in a stock loan.

10c-1 looks, in general, like a far simpler regulation, covering less types of trading, needing only basic data about trades to be reported and only requiring reporting by one party to the trade: the lender or lending agent.

In spite of the technical differences in the design of SFTR and 10c-1, one of the most interesting differences is the core objectives of the relevant regulators. SFTR was designed to support macro-prudential regulation — regulation aimed at monitoring and reducing risks to the stability of the overall financial system. The original European Union documentation stated:

"In the context of its work to curb shadow banking, the Financial Stability Board (FSB) and the European Systemic Risk Board (ESRB) established by Regulation (EU) No 1092/2010 of the European Parliament and of the Council (5) have identified

the risks posed by securities financing transactions (SFTs). SFTs allow the build-up of leverage, pro-cyclicality and interconnectedness in the financial markets. In particular, a lack of transparency in the use of SFTs has prevented regulators and supervisors as well as investors from correctly assessing and monitoring the respective bank-like risks and level of interconnectedness in the financial system in the period preceding and during the financial crisis."

In line with those original objectives, the primary users of the data collected under SFTR have been the European (and UK) central banks rather than regulators responsible for financial conduct. In fact, there has been a heavy focus simply on reviewing the data quality of the 155 fields because of poor quality data or rejected data preventing central bankers from loading data into their models. The poor quality of data (perhaps a consequence of overcomplicated requirements) makes the data very hard to use for conduct-related regulation, even if conduct-focused regulators such as the FCA or BAFIN attempted to make more use of it.

Data quality issues, plus the way data is released to the public (both in terms of the level of aggregation and timeliness), make it very hard to use SFTR data in day-to-day trading decisions. This has led to it having little to no impact on the efficiency of the EU and UK stock lending markets, while adding significant operational and compliance costs.

In contrast, the objectives of the SEC are very focused on improving the operation of the securities lending market as well as conduct-related regulation.

According to the SEC, the subsequent benefits include “a reduction of the information disadvantage faced by end borrowers and beneficial owners in the securities lending market, improved price discovery in the securities lending market, increased competition among providers of securities lending analytics services, reduced administrative costs for broker-dealers and lending programmes, and improved balance sheet management for financial institutions”.

In its preliminary analysis, the Commission also believes that the proposed Rule would be likely to reduce the cost of short selling, leading to improved price discovery and liquidity in the underlying security markets.

The focus on conduct is explicitly spelt out.

The Commission also indicates that the proposed Rule would benefit investors by increasing the ability of regulators to supervise, study, and provide oversight of both the securities lending market and individual market participants.

One of the major historic differences between short selling in the US and European equity markets has been the emphasis of US regulators on short sellers checking the availability of stock for borrowing, to cover their shorts, before they do a short sale. Failure to follow this “locates” process — and to document that it has received a locate confirmation from a lender — can lead to major penalties. The requirement under 10c-1 for firms to report stocks available for loan as well as stocks on loan (at the end of each business day), would provide a powerful tool for the SEC to verify whether locate requests are being checked against accurate data for loan availability.

Coupled with other data, the Commission could identify short sale orders, short sellers, and their broker-dealers who are active in such securities, which would allow the Commission to target broker-dealers more efficiently for locate examinations.

This difference in emphasis is probably one of the reasons why the SEC has created a regulation that is in many ways simpler and easier to comply with than SFTR — at least in terms of sourcing and reporting data — but one where there is likely to be less tolerance of the data quality issues that have bedevilled SFTR. It is also a regulation which, if implemented in its current form, is likely to have far more impact on the operation of the US securities lending market than SFTR has had on the EU and UK markets.

In coming articles in this series, we will examine the potential impacts in more detail and the disconnect between how regulators and participants view the operation of the market. ■

Regulatory best practices for CSDR

The implementation of Central Securities Depositories Regulation has invoked regulators to publish guidance on best practices to tackle the legislation for the bond and repo markets. Carmella Haswell summarises all you need to know

After much anticipation, the Central Securities Depositories Regulation (CSDR) went live across Europe on 1 February 2022. Regulators, including the International Securities Lending Association (ISLA) and the International Capital Market Association (ICMA), seek to support the bond and repo markets through the transition with guidance from its best practice recommendations.

ISLA had previously drafted a list of recommendations within its CSDR Penalties Best Practice Guidelines for the cash penalty regime, but have since updated the document to include changes that reflect member comments over the Christmas period and, where possible, aligned with other trade associations.

Claims issuance and settlement

ISLA suggests counterparties issue their CSDR claims within 30 calendar days from the CSD penalty issuance. It is noted that proposed deadlines for CSDR triggered claims may be amended as the process matures. Claims made should be sent electronically or via email, with signature, and preferably in PDF format. The recipient

should acknowledge the receipt of the claim within 24 hours and must endeavour to pay the claim within 30 days, with a maximum of 60 days from the CSD penalty issuance.

The minimum claim is €500, or lower if bilaterally agreed prior to activity, and parties may agree consolidation of multiple failing transactions to pass the minimum threshold. Once the claim has been agreed by both trading parties, payment is to be made within five business days. The claim can only be formally closed when the claim issuer confirms receipt of payment.

The claim issuer should provide the following information:
• Claim initiator name and BIC
• Cash currency and value
• Trade date of failing instruction
• Claim reference
• Intended settlement date
• Claim calculation
• Actual settlement date
• Claim/penalty currency
• Security ID and description
• Claim/penalty amount
• Quantity
• Reason for claim
• Payment details

Netting of claims

In regards to a single failing event, ISLA recommends that claiming parties incorporate and consider relevant credits and debits that may apply for each failing instruction. Furthermore, a net settlement — a single cash flow to resolve multiple claims within the same penalty period — should be agreed for total claims between parties. CSDR penalises the failing party to the trade as a means to promote more efficient settlement across EU capital markets. The Directive specifies that claims should not unduly enrich either party.

Partialling

Automatic Partial Settlement is a facility to settle incremental quantities of a failing transaction. Auto-partial facilities should be applied by default for failing securities lending trades, where its use does not disadvantage either party. Parties may bilaterally agree to time or quantity limitations to provide sufficient opportunity to maintain collateral or other controls. The T2S settlement system provides Partial Hold Release functionality, which should be used as noted in the Securities Market Practice Group (SCPG) market practices.

Sale Notifications

Although best practice may recommend guide cut-off times, it is recognised that counterparts to a loan will want to retain a flexible approach. However, should notifications, instructions and settlement occur outside the recommended guide-times, parties should acknowledge that settlement will be on a best-effort basis. To avoid any backdating of activity, instructions should be processed on the date they are negotiated.

The recommended cut-off times for new loans should be no later than one hour prior to the relevant market cut-off. Collateralisation of new loans will occur at different times relative to the trade and settlement. In regards to returns, notification of a loan return should be processed electronically and, where possible, via an electronic platform, no later than one hour prior to the relevant market cut-off.

ICMA's regulatory guidance

Through its CSDR Settlement Discipline Working Group, ICMA released its guiding practices on cash penalties to aid the bond and repo markets. The document first discusses best practice relating to Article 6 notification requirements. As a measure to prevent settlement failure, Article 6 of CSDR obliges an EU investment firm, executing a block trade with a professional client, to require that client to promptly communicate the information needed by the investment firm to instruct settlement. ICMA warns that not only is this instruction vulnerable to delay, but the regulatory obligation lies solely on the investment firm. The firm will need to contractually bind its professional client into the process to meet the obligation, whether or not that client is in the EU or in a third country.

The regulator adds that the processes of sending notices of allocations and confirmations of the terms of a block trade are independent and not sequential. The contractual arrangements between the investment firm and the professional client may take any form deemed effective by the parties, provided they are clear regarding the responsibilities of the two parties. The contractual arrangements should specify the close of business of the investment

firm for the purposes of receiving and acting upon notices of allocations and confirmations. The contractual arrangements should also specify the necessary information, detailed in Article 2 (1) of the relevant Regulatory Technical Standards, that is required by the investment firm to facilitate settlement.

Other best practices surrounding the notification requirements include monitoring receipt of notices of allocations and confirmations of terms by investment firms, and the dispatch of acknowledgements of receipt to professional clients, against the deadlines set by the regulations or any earlier deadlines agreed by the parties and audited. Furthermore, as proof of regulatory compliance, a record must be kept of the timeliness of incoming notices and confirmations, outgoing acknowledgements, and the validity of incoming allocations.

> *“While it is important to encourage partialling, it has to be recognised that there are good reasons why parties may not accept partial delivery"*

The particular technology used to transmit notices of allocation, confirmations of terms and receipt of these notices is not prescribed by regulation and is entirely the choice of the investment firm, according to ICMA. However, the likely scale and urgency of the process of sending and receiving notices means that best practice in fulfilling these regulatory requirements is only likely to be achieved through automation of the process. The particular institutional arrangements used to transmit these notices and receipts is also not prescribed by regulation and is entirely the choice of the investment firm.

Bilateral restitution of penalty charges

Within its best practice document, ICMA discusses a scenario in which a party to a repo has offered partial delivery but the counterparty has refused, resulting in the first party suffering a CSDR cash penalty charge for the whole amount of the failed settlement. It gives rise to the question, is it best practice for the first party to be able to seek restitution for that part of the charge where partial delivery was refused?

The regulator concludes that claims for restitution, where partial delivery is refused, are not best practice. “Claims are likely to be contentious and lacking the support of an industry consensus, and while it is important to encourage partialling, it has to be recognised that there are good reasons why parties may not accept partial delivery and that the failing party has breached its contractual obligation to deliver the whole of an agreed amount of securities or cash,” explains ICMA. Parties are free to agree restitution where partial delivery is refused, but this should be agreed in advance of trading.

In terms of partial settlement — where parties to a failed settlement agree bilaterally to partial settlement after the original intended settlement date (ISD) — it is within ICMA’s best practice to agree the date on which the original settlement instructions are to be cancelled and reinstructions issued. Should one of the parties fail to cancel and reinstruct on the agreed date, that party would be liable for any Late Matching Fail Penalties (LMFP) for the delay from the ISD and would have no right to reclaim the LMFP for the period of the delay.

Invoice and billing CSDR cash penalties

Daily reports of CSDR cash penalties on individual failed instructions should be made as soon as possible by CSD participants and non-CSD participants, after receiving a daily report from the calculating CSD. The same guidance is applied to monthly reports of the aggregate CSDR cash penalties, which are to be charged per currency and, if necessary, per CSD. For the purpose of collection from and distribution to clients, custodians should aggregate CSDR cash penalties at the higher level of investment fund or custody account. It is also recommended that Treasury Market Practice Group (TMPG) and CSDR cash penalties be paid separately.

Reports to clients should be in the form of MT537 PENA SWIFT messages, but custodians are advised to consider offering alternatives, for example web reporting, for clients that have not developed the capability to receive MT537 PENA messages via SWIFT.

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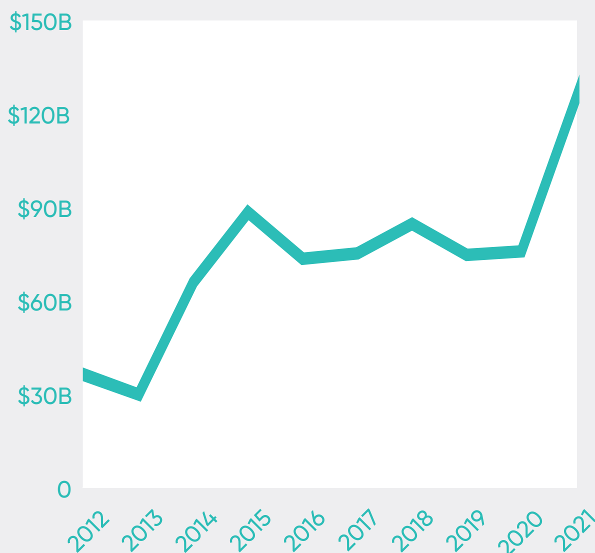

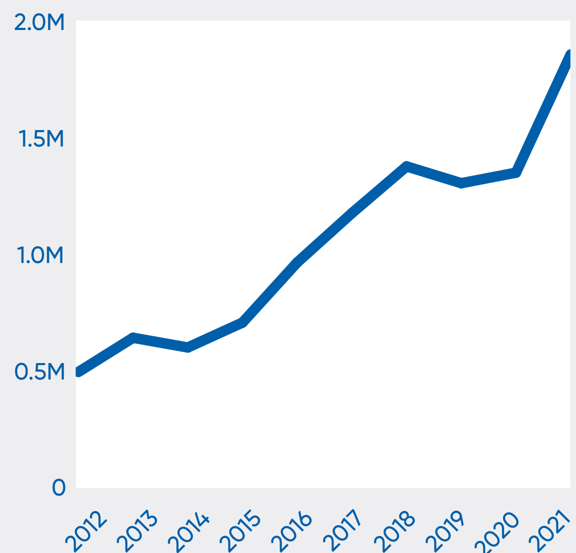

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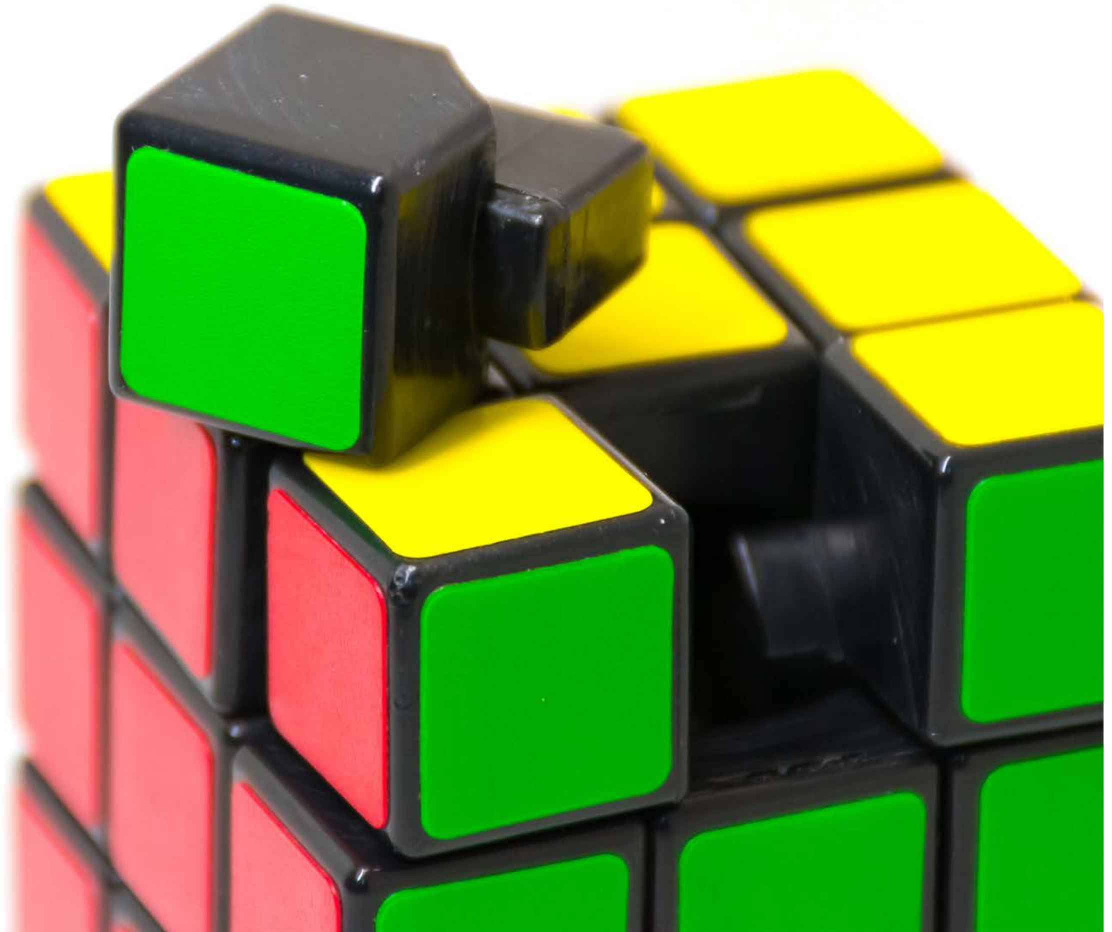

Simplifying oversight management for securities lending

Having the right oversight can optimise lending performance, improve operational efficiency and enable a lender to manage their risk more effectively, says IHS Markit's Rob Nunn

Every institutional investor participating in a securities lending programme approaches the oversight of its programme in different ways. This ranges from having a dedicated resource to oversee the programme, to a part time oversight delegated function, to a compliance or risk team member. Scrutiny of the lending programme can range from rudimental checks, for example sufficiency of collateral, to a daily review at trade level to ensure the agent has optimised every loan.

But what is the appropriate level of oversight and attention?

Some regulators have addressed this question not as a regulatory requirement but as a set of "best practices". Best practice is open to

interpretation and some default to the minimum level of oversight, while others take a more in depth and detailed approach to ensure their fiduciary, performance management and independent governance requirements are met.

Having the right oversight and governance framework in place can improve operational efficiencies, optimise performance and enable a lender to better understand and manage their risk. A well-structured framework will assist in managing internal stakeholders and board requirements. Having the right tools enables a lender to focus on verifying that their programme is operating within its defined parameters, capturing opportunities and highlighting sources of outperformance.

“Our solution is not meant to replace the relationship a client has with its lending agent, but our experience shows it can enhance it. It provides greater transparency and understanding of their lending programmes”

It is generally assumed that independent oversight of a securities lending programme is a necessity, but we recognise this is not always high on the list of areas to improve or even future-proof. Regulators have started to focus more on delegated functions and are looking for improvements — which is only one step away from making it a requirement. But the all too familiar story is that it is not a priority — “it's eleventh on my top 10 things to do” — is understandable, especially given all the current regulations a lender must meet and plan for.

IHS Markit provides an Oversight Management Solution specifically tailored to improve governance, independent of the lending agent. This enables our clients to:

- Receive daily compliance reports which track the programme's lending parameters.
- Proactively manage loan positions to avoid failed sales by monitoring the liquidity of the loaned securities.
- Monitor open loans of forthcoming proxy voting meetings, while assessing their impact to revenue and providing access to liquidity loan information to ensure timely recalls are put in place.
- Identify unrealised revenue opportunities.
- Receive performance and risk reports generated at fund or programme levels and tailored to clients' requirements and desired frequency.
- Receive consolidated reporting when multiple agents are used.
- Control and set the peer group and benchmark that their programme is measured against.

We believe that having access to our solutions helps clients to quickly identify exceptions, understand performance and risk, and uncover potential opportunities to fully optimise their lending programmes. We appreciate the prudent practices applied by our clients and we can help them to assess whether they should participate in securities lending, or expand their programme parameters, by evaluating the potential risk when changing acceptable collateral, approving different markets or asset types. Our solutions can also be tailored to meet bespoke requests to supplement programme reviews, reporting for internal stakeholders, and to assist with RFPs by providing revenue evaluations.

Our solution is not meant to replace the relationship a client has with its lending agent, but our experience shows it can enhance it. It provides greater transparency and understanding of their lending programmes, helps exceed best practice and potentially future proof a lending programme from future regulations.

We are sure that some, if not all, of what we say resonates with lenders. Our new Oversight Management Solution is meant to improve something that mostly goes under the radar in many organisations — that is until there is a market event which grabs the attention of those that have not fully grasped the mechanics of the transaction or the importance of the revenue generated for the fund. Having better governance provides better understanding, management, and control of a securities lending programme, thereby ensuring that more informed decisions are made to protect and grow the business.

The best solution for lenders is understanding what they do today, how, and why.

The rise of retail

The power of the retail investor is increasing, affecting the way issuers communicate with their investors, how service providers deliver their offerings and how regulators supervise. FIS' David Lewis examines the implications for securities finance markets

It is said that a week is a long time in politics. For those embroiled in UK politics right now, some would say that the last few weeks felt more like years. Others may be surprised to learn that the debacle around GameStop (GME) was a year ago. The events leading up to the short squeeze have been well documented, and the impact was felt widely by anyone directly exposed to the share price volatility that ensued. But what about the wider fallout, and the trends and changes in market behaviour that it was an early warning of — or perhaps even the cause of?

People love jumping on a bandwagon. Indeed, its popularity is the very definition of the phrase. The GameStop event was a very popular bandwagon both before and after the squeeze. FIS Securities Finance Market Data was showing GME shares at, or very near, 100 per cent utilised for most days since September 2019, and often at that level since 2013.

From 2013 to January 2021, the share price of GME had collapsed from around US$50 to as low as US$4. The volume of shares on

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

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loan varied between 20 and 55 million, so exact gains or losses cannot be accurately derived. At a simple average of, say, 37 million, a broad gain of US$1.7 billion could be inferred. Little wonder the Reddit group came after what was perceived to be unacceptable profiteering from a failing business. Pushing the price up as far as US$325 certainly caused some realised and unrealised losses on the short side, but the events of a year ago have arguably led to potentially far-reaching changes.

The newly proposed regulation from the SEC, namely 10c-1, has been examined thoroughly elsewhere but, when combined with other factors it brings such possible changes into sharper focus. GME shares certainly demonstrated some extreme volatility, trading between US$4 and US$325 within six months, and returning to around US$115 more recently. Notably, this is still in the loss zone for almost all, if not all, short positions.

Nowadays, other tech stocks are joining in, if not as wildly. The FANG+ index from the New York Stock Exchange (the big five of Amazon, Google, Apple, Facebook and Netflix plus five more: Tesla, Alibaba, Nvidia, Twitter and Baidu) has fallen some 12 per cent year to date, and is down over 5 per cent over the last 12 months. The indexation of a group like this often hides individual volatility, with the extreme drop in the value of Facebook (now FB or Meta Platforms Inc.) this month recording the largest single drop in value of any US company ever.

FB is not the sole cause of the FANG+ fall. All of the big five are down year to date. For example, Google is down 4 per cent and Tesla is down some 23 per cent since January 1st, so the falling of tech stocks is not limited to one company. The threat of rising interest rates has certainly been cited as a potential cause of the sell off, with money heading for the yields offered by fixed income, but the rise in exchange and private investor activity cannot be ignored.

Trading volumes on US stock exchanges have risen from US$1.37 trillion in 2019, through US$2.20 trillion in 2020 to a high of US$2.45 trillion last year (source S&P Global Market Intelligence, unadjusted for share price values). Over the same timeframe, retail share ownership increased from 13.9 per cent through 14.2 per cent, jumping to 18.5 per cent last year (source IHS Markit).

Such changes, it might be argued, have fuelled the clamour for greater transparency and market access for retail investors — resulting in the proposed SEC Rule 10c-1 — but it has also prompted providers to take note. The power of the retail investor is increasing and affecting the way issuers communicate with their investors, how service providers deliver their offerings and how regulators supervise. The securities finance and collateral industry will also need to adapt. Volatility is certainly good for business, as evidenced by 2020 market revenues, but the potential for structural change must also be considered.

Supervised quid pro quo

Market participants typically and understandably have focused on large clients. Large beneficial owners provide stability and economies of scale while the better capitalised hedge funds and asset managers deliver stable and somewhat predictable demands. However, if the rising trend for retail ownership of securities continues at pace, the market will have to adapt. Lower fiscal and technological barriers will enable greater access across more diverse market participants, increasing the potential for peer-to-peer activity as well as a deeper, broader market for many.

There will have to be a corresponding shift in regulatory oversight at the same time, enabling providers to deliver the enhanced protection that retail investors will demand in return for access to their investments. Technological change will enable access to more participants, with the ability to opt in or out of lending their shares in the same way, so many retail investors can access the cash markets from their pockets today.

There will have to be a supervised quid pro quo, however. Transparency and access will have to work in both directions if the markets are to continue to function properly. Risks must be understood and acknowledged by everyone participating in the financial markets, coupled with the explicit understanding that disintermediation of providers may be attractive when investments are gaining, but the lack of the protective umbrella can hurt when they are not.

The non-objecting beneficial owner (NOBO) is one that permits their information to be accessed and shared. Like any statistical indicator, the inferences and insight gained from those that choose to share their information can only be relied upon when they are proven to be statistically significant. Taking heed of a too-small sample is fraught with danger, as any data scientist will tell you, so the balance must be struck between access and insight, risk and return. Interestingly, the GameStop tag line is “Power to the Players.” It would be fascinating to know if the author had any inkling just how prophetic that line would become when they wrote it.

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Richard Glen joins HQLA^X as Solutions Architect

HQLA^X has appointed Richard Glen as Solutions Architect.

Glen is based in HQLA^X's newly-opened London office in Gresham Street and began his employment with the company on 1 February.

Speaking exclusively to SFT, HQLA^X's chief operating officer Nick Short says that Richard Glen's appointment is central to the company's plans to expand its business footprint in London.

"Richard's role as Solutions Architect is focused on solving business problems for our clients," says Short. "We work closely with customers to address their pain points and to apply the HQLA^X solution to bring greater efficiency to collateral mobilisation, transformation and liquidity management needs."

Short explains that HQLA^X's Delivery-versus-Delivery (DvD) model enables clients to lower their capital costs by reducing intraday liquidity requirements, credit risk and operational risk.

"This DvD model enables users to instruct change of ownership of collateral baskets to the nearest minute, allowing users to fine tune and optimise their collateral and liquidity management strategies," says Short. "When managing Liquidity Coverage Ratio and Net Stable Funding Ratio requirements, for example, this enables users to manage their liquidity buffers more efficiently by permitting transfers of HQLA^X baskets in close to real time."

Glen leaves Clearstream after 17 years with the organisation, most recently serving as head of collateral management within Clearstream's Banking, Funding and

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Financing division based in London. For the past 18 months, he was also general manager of Clearstream Banking SA's London branch.

Prior to this, Glen was Clearstream's head of global securities financing (GSF) sales for the UK, Ireland and Americas from 2005 until 2016, adding the Asia-Pacific region to these responsibilities from 2016 until 2018.

"Having worked for 15 years with collateral and liquidity management solutions in a financial infrastructure environment, I welcome the opportunity to apply these skills at HQLA^X, working closely with clients to meet their service requirements and to broaden the solutions offered by the HQLA^X platform," comments Glen.

HQLA^X was launched in 2018 as a collaboration with Deutsche Börse Group for securities lending and collateral transformation hosted on R3's Corda blockchain solution. This aims to bring greater efficiency in the movement of high-quality liquid assets (HQLA).

The HQLA^X model aims to support collateral transformation trades – for example upgrading lower quality to higher-quality collateral – but without the need to transfer securities between custody accounts of the trading parties.

Instead, a tokenised transfer of ownership takes place on distributed ledger technology (DLT), while the underlying securities remain static and are kept off blockchain.

The platform is accessed via Eurex Repo's trading system, with Deutsche Börse standing as a "trusted third party" (TTP) to the transaction, holding baskets of securities at triparty agents and custodians on behalf of market participants.

Critical mass has been building on the platform. Commerzbank, UBS and Credit Suisse have been active in the project since 2018 as early adopters, alongside Deutsche Börse Group as major shareholder and TTP.

In January 2021, HQLA^X completed a €14.4 million funding round with BNY Mellon, Goldman Sachs, BNP Paribas Securities Services (BNPPSS), Citi and Deutsche Börse Group.

In June, HQLA^X also added J.P. Morgan as a strategic investor in its Series-B funding round.

In concluding, Nick Short adds: "Our clients are attracted by what the HQLA^X platform is able to deliver today, but also particularly by what it will deliver in the future. We build our solutions in close collaboration with our customers. The expertise that Richard brings to the company is essential to this process — and we are highly excited by his appointment."

UBS appoints Ebru Ciaravino as executive director

UBS has appointed Ebru Ciaravino as executive director of exchange-traded derivatives and clearing sales for the bank's European clients.

The former head of prime services and clearing sales for Germany, Austria and Eastern Europe at Societe Generale, will be based in Frankfurt.

Prior to this role, Ciaravino was senior vice president of fixed income derivatives sales and global funding and financing sales at Eurex between 2017 and 2018.

Previously, Ciaravino was based in Paris where she held the position of senior vice president of clearing sales and relations between 2014 and 2017, at Deutsche Börse.

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Broadridge appoints Robert Kroos as business analyst for its Amsterdam office.

In his role, Kroos will join Broadridge Securities Finance and Collateral Management (SFCM) as part of its services offering to support a key client relationship.

He will report to Gilbert Scherff, senior business analyst team lead and CSDR sponsor.

Kroos joins Broadridge from Pensioenfonds Rail & Openbaar Vervoer, where he held a senior position in the back office.

He was also IT project manager at CACEIS after spending 18 years at Robeco Securities Lending, where he held several positions, most recently as head of mid-office, specialist collateral management and securities lending.

Alex Ithier has announced his departure from Asterisk Networks after almost three years.

Formerly working in sales within the product and business development section of Asterisk Networks, Ithier has left the traditional finance world to enter into the crypto industry.

Ithier has been appointed sales director at Bitpanda Pro, a trading platform and digital asset exchange.

Prior to this role, he worked as an independent consultant for three years after acting as senior broker of equity finance at GFI Group in 2014.

Ithier comments: "I would like to place on record my thanks and best wishes for the future to Tammy Phillips and the team at Asterisk Networks."

Etrading Software has appointed James Haskell as chief operating officer and David Lane as chief technology officer.

Based in London, the two hires aid the expansion of the firm's technology platform as it welcomes partnerships on new products and services.

Haskell was business operations officer at Etrading Software, a global provider of technology-led solutions, before stepping up to his new position.

He had joined the firm from Goldman Sachs, where he worked for 13 years in its London, New York and Hong Kong offices, most recently as executive director.

Now positioned as CTO, Lane previously acted as product owner at Natwest before joining Etrading Software in 2020, and was programme manager for RBS between 2015 and 2020.

Commenting on his new position, Haskell says: "I have been working with the team at Etrading Software for some time as we design, build and operate technology solutions allowing clients to keep full governance and control using transparent and vendor-neutral solutions.

"I am excited to continue the expansion in this relatively newer space for Etrading, where we are increasingly responding to requests to build the technology platforms in an equity partnership with our clients, so we can offer efficient products which are tailored to clients' specific needs and ensure we are aligned with the growth and success of our partners."

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