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Focus on transformation

J.P. Morgan's Ben Challice speaks about technology investments and the advance of the global collateral ecosystem

MUFG Global Securities Lending Solutions Group partners with OpenText

OpenText and MUFG Global Securities Lending Solutions Group (GSLS) have partnered in an effort to deliver enhanced services to clients.

By leveraging OpenText Business Network's suite of cloud-based information solutions and information management, GSLS aims to enrich client experience with customised reporting capabilities.

Utilising OpenText STP Financial Hub and managed services, the GSLS Group will have access to file management, multi-channel reporting and a distribution service to deliver time-sensitive data to clients across multiple format methods including secure file transfer protocol and email.

Tim Smollen, global head of GSLS, says: "Expanding our partnership with OpenText will be a great complement to our suite of proprietary and partner technology, which together provide a broad set of reports for our clients. Leveraging OpenText's expertise in the creation and distribution of customised client reporting and data enables us to offer our current and prospective customers a differentiated and cutting-edge experience."

Kristina Lengyel, executive vice president of customer solutions cloud services at OpenText, comments: "We are proud to partner with MUFG's GSLS Group to provide a comprehensive solution that helps them to simplify complex information gathering, storage, security and analytics, and equips the team with a digitised and highly managed service that enables them to meet their clients' evolving needs."

Inside this issue

Tradeweb reports 8.1% YoY rise in repo ADV for March

Repo average daily volumes (ADV) traded on Tradeweb increased 8.1 per cent YoY for March, rising to US$361.5 billion.

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.

Trading activity in US ETF on Tradeweb increased by 17 per cent in ADV terms compared to March 2021, rising to US$8.3 billion. European ETF ADV was up 24.2 per cent YoY to US$3.8 billion.

This record US institutional client activity was driven by further adoption of request for quote (RFQ) facilities. Tradeweb also reports that elevated market volatility boosted volumes in the US and Europe.

In March, Tradeweb outperformed market trends with fully electronic share of US high grade and US high yield TRACE capturing 11.1 per cent and 6.6 per cent, respectively, up YoY.

According to Tradeweb, the global electronic trading market operator, the average traded daily volumes for swaps and swaptions rose 12.4 per cent YoY to US$249.6 billion, and total rates derivatives ADV jumped 27.3 per cent YoY to US$401.5 billion.

In US government bonds, the ADV was up 30.1 per cent YoY to US$148.6 billion, with European government bond ADV increasing 22.4 per cent YoY to US$37.9 billion.

FCA extend SFTR deadline for third country issuer LEIs

The Financial Conduct Authority (FCA) has announced a six-month extension on the reporting of Legal Entity Identifiers (LEIs) of non-European Economic Area third-country issuers.

Firms will not need to report third-country LEIs under the UK Securities Financing Transactions Regulation (SFTR) until at least 13 October 2022.

The International Securities Lending Association has welcomed the extension of the forbearance period, which was due to expire on 13 April.

This period is now closely in line with the European Securities and Markets Authority's (ESMA's) EU SFTR deadline, which is due to end on 10 October.

The announcement marks a second extension period for the reporting of non-EEA third country issuers, with the UK financial regulator creating a 12-month extension from the original date of 13 April 2021.

The move was designed to avoid market disruption after large gaps remained in LEI coverage outside of the EEA.

GPIF requests information on effects of securities lending suspension

The Japan-based Government Pension Investment Fund (GPIF) has issued a Request for Information (RFI) on quantitative analytical methods relating to the effects of its stock lending suspension to the market.

GPIF says: "Given the time that has passed since the suspension — and the market data has been accumulated as a result — GPIF would like to consider conducting quantitative analysis on the effect of its stock lending suspension on the market."

In December 2019, the administrative agency announced that it would no longer lend out its foreign equity assets, considering the practice to be too 'opaque' and incompatible with its responsibilities as a long-term investor.

On taking the decision to suspend its stock lending activities, it announced that its Board of Governors would conduct a subsequent review to assess the effects of this decision.

In issuing an RFI, the GPIF has asked respondents to share their views and information on quantitative analytical methods that may be employed to assess the impact of this stock lending suspension on the market. The GPIF will finalise the focus and methodology for its analysis, having considered the data and recommendations that it receives through this RFI.

BNP Paribas collaborates with DTCC on UMR solution

BNP Paribas Securities Services has announced its collaboration with the Depository Trust and Clearing Corporation (DTCC) to provide a solution which aids its clients in preparing for Phase 6 of the

Uncleared Margin Rules (UMR).

The collaboration will see BNP Paribas' Triparty Collateral Management solution connect with DTCC's Margin Transit Utility service (MTU).

The MTU service was created to improve settlement efficiency and reduce operational complexity and risk for margin call processing.

This solution comes ahead of UMR initial margin wave 5, with an objective to ensure full, end-to-end straight-through processing connectivity, preparing the industry for regulatory deadlines and accelerating client efficiency.

Speaking on the announcement, Jerome Blais, co-head of Triparty Collateral services at BNP Paribas Securities Services, says: "We are excited to be live on DTCC's MTU and allow our clients to reap the operational and technological benefits of a plug and play solution to manage their regulatory initial margin flows with BNP Paribas Securities Services as triparty collateral agent and custodian."

ESMA submits final report on Short Selling Regulation

The European Securities and Markets Authority (ESMA) has released its final report on its review of the EU Short Selling Regulation and this report has now been submitted to the European Commission.

The report builds on experience gained during the COVID-19 pandemic relating to the emergency procedures applied by national supervisors and ESMA's decision to lower the reporting threshold for net short positions.

It also explored implications of recent trading in meme stocks in US markets where, in ESMA's words, large purchases of shares and call options in those meme stocks, combined with high levels of short positions, created the conditions for sharp price increases leading to a 'short squeeze'.

ESMA proposes revisions to the rules for


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relevant competent authorities (RCAs) to apply long-term and short-term short selling breaks. These changes are designed to ensure that the RCAs and ESMA have the powers necessary to tackle emergency situations and that clear procedures are in place to guide these actions.

The review process makes amendments to the framework for calculating net short positions and the list of shares for which exemptions should apply to the SSR.

It also proposes changes to the locate rule for assessing stock loan availability and tighter record keeping requirements to monitor uncovered short sales.

Reflecting on the high market volatility that accompanied meme stock trading during 2021, ESMA proposes the introduction of a centralised system, led by ESMA, for publication and disclosure of net short positions to the public.

This will potentially include an EU-wide obligation for RCAs to publish aggregated net short positions per issuer, on a periodic basis, for all individual positions that meet or exceed the notification and publication thresholds.

To inform the review process, ESMA published a consultation process in September 2021 that called for industry feedback relating to the major themes outlined above.

In preparing its consultation paper, ESMA conducted an impact assessment of the long-term bans adopted under Article 20 of the SSR during the first wave of the pandemic in 2020. This impact study evaluated the effect of the bans on market quality, analysing liquidity, returns and volatility indicators, along with the risk of displacement effects between countries.

The analysis was conducted at European level, including all EEA30 countries and the UK.

Among the high-level findings in its impact analysis, ESMA concluded that the short-selling bans applied during the crisis were associated with a deterioration in market liquidity, as measured by bid-ask spreads and the Amihud illiquidity indicator. This negative impact on liquidity was more significant for large cap stocks, for "highly fragmented stocks", and for shares with listed derivatives.

ESMA found that shares in countries that applied short selling bans exhibited a lower level of volatility, typically 6-10 per cent lower, during the period of the ban. However, it says that the bans did not significantly harm market prices during this period.

Overall, ESMA indicates that there were no clear displacement effects between countries as a result of short-selling bans.

In concluding, ESMA states that the long-term short-selling bans in Europe during 2020 had "mixed effects" — resulting in a deterioration of market liquidity on one hand, but reducing the volatility of the relevant shares on the other.

It therefore finds that the current SSR framework, accompanied by selective operational improvements, will support the ability of relevant competent authorities to address concerns around financial stability.

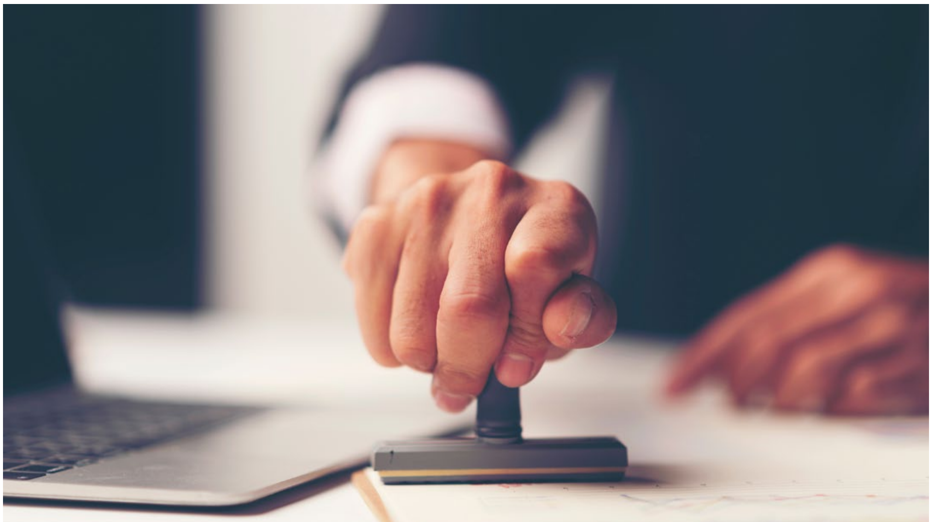
In summarising the feedback that it received during the consultation process, ESMA indicates that "the majority of respondents did not agree with the conclusions of ESMA's analysis. Those respondents were very critical and provided several arguments in favour of short selling activities, including references to analyses that reached the conclusion that short selling is not detrimental."

Those supporting ESMA's assessment said that although short selling plays an important role in price discovery in normal market conditions, it can potentially contribute to unnecessary downward pressure on share prices in conditions of market stress.

The matter was discussed further within the Securities Markets Stakeholder's Group (SMSG), which offered divergent views on whether short selling bans during the pandemic were counterproductive or useful.

Some SMSG participants indicated that short selling is hugely important for price discovery, liquidity provision and market efficiency in adverse circumstances and highly volatile markets. For others, short selling bans offer important protection to issuers and investors.

In its recommendations, SMSG proposed that ESMA should be required to conduct an ex-post analysis of any future short selling bans, with a remit to inform market participants and to increase knowledge about the impact of such bans.



KOR secures CFTC approval

KOR, a trade data processing and management platform for derivatives markets, has been registered by the primary US derivatives regulator, Commodity Futures Trading Commission (CFTC).

Now approved as a licenced regulatory Swap Data Repository (SDR) for all asset classes and client segments, KOR claims it is the first approval granted by the CFTC since 2014 and the first cloud-native SDR.

The KOR SDR and complementary reporting services are live for testing and go into production in summer 2022. Participants will benefit from sub-second actionable analytics on submitted data, on-demand reports of full history, and insights to improve compliance processes and drive operational efficiencies.

The platform is currently applying for a US Securities and Exchange Commission Securities-based SDR licence, with immediate plans for licences in Canada, Singapore, Australia, the UK and the EU in advance of pending regulatory changes.

Jonathan Thursby, CEO and founder of KOR comments: "Regulatory reporting has been ripe for innovation for years. Participants have been limited to under-designed yet expensive systems providing the bare minimum to meet compliance requirements.

“We have created an alternative that takes a decade of global learning and bold technology designs to completely redefine every aspect of regulatory trade reporting. This way our clients can focus more on their core business with confidence."

OCC securities lending average daily loan value rises 16% YoY in March

OCC securities lending activity has grown 15.6 per cent YoY by average daily loan value, rising to US$137.6 billion for March. This follows a 15.8 per cent YoY rise in ADLV during February.

Securities lending transactions cleared through OCC have risen 32.1 per cent YoY by volume during March to 211,978 transactions.

Total cleared futures and options through OCC have climbed 4.4 per cent YoY in March to 943.7 million contracts. Average daily volume for aggregated futures and options activity has grown 1.2 per cent to 42.7 million trades.

ETF options and index options have experienced the strongest YoY growth for March. ETF options contracts cleared through OCC have risen by 29.7 per cent to 348.9 million, with ADV up 36.2 per cent to 15.6 million.

Index options contracts cleared through OCC have grown by 28.0 per cent to 53.4 million YoY for March, with ADV rising 26.9 per cent to 2.4 million transactions.

In contrast, equity options clearing activity has contracted, falling 8.7 per cent YoY to 536.9 million contracts in March. Equity options ADV decreased 14.6 per cent to 24.4 million transactions for the period.

Futures contracts cleared through OCC have also declined, falling 14.9 per cent to 4.6 million contracts.

Focus on transformation

Ben Challice, global head of trading services at J.P. Morgan, which comprises their collateral management and agency financing business, speaks to Bob Currie about how investments in their technology stack and a convergence of client service needs is driving evolution of the securities finance product set

The securities finance industry has negotiated a time of significant market dislocation, with the Q3 19 US repo market spike followed less than six months later by the COVID-19 pandemic and significant market volatility that this engendered.

This experience has illustrated the ability of the securities finance industry to perform under stress conditions and to adapt its working practices under pressure. But, for Ben Challice, it is the transformation projects that J.P. Morgan has been running over a longer timeframe that will have a more dynamic and enduring impact on the future of collateralised finance.

Looking historically, Challice observes that the global collateral ecosystem had changed relatively slowly over several decades, despite advances in technology and product solutions that would enable collateral to be mobilised and allocated much more efficiently. The triparty collateral management space has operated in the past as a set of relatively closed ecosystems — dominated by the biggest players, J.P. Morgan and BNY Mellon, Clearstream and Euroclear.

“As a triparty collateral specialist, we have made a deliberate effort over the past four or five years to open up that collateral environment and to extend greater choice to users regarding how they apply those collateral services,” says Challice. For example, this will enable clients to use the triparty front end to perform the collateral optimisation and to support their pre-trade decision making, while extending the operational benefits that come with operating through a triparty service.

“With this in place, we are extending flexibility to the user to deliver collateral to a wider range of collateral takers and to improve connectivity within the collateral ecosystem,” he says. This includes the ability to post margin to central counterparties through J.P. Morgan’s CCP Margin Exchange, which launched in late 2020 with the aim of offering triparty connectivity to eight or 10 of the world’s major CCPs by the end of 2022.

“In addition to our efforts to open up the collateral environment, we focused on creating full interoperability between all collateral services modules supporting pre-trade analytics, ‘what-if?’ simulation capabilities, and integrating collateral optimisation with collateral movements”, Challice adds.

Inevitably, this transformation is shaped by client behaviour and by evolving needs on the part of core securities lending and financing clients. For asset owners and asset management clients, there is a continued drive to optimise risk-adjusted return from their securities inventory. For collateral providers, particularly the broker-dealer and prime brokerage communities, there is a requirement to mobilise cheapest-to-deliver collateral, to unlock new pools of underutilised assets, and a need to maximise financial resource efficiency.

As a business, J.P. Morgan has been bringing these lines of business closer together, aligning the needs of collateral providers more closely with those of collateral takers, reinforcing opportunities for alpha generation through the lending relationship and enabling the user to mobilise, allocate and transport collateral in a more optimal way.

Inevitably, this focus on transformation has also been driven by regulatory imperatives. BCBS-IOSCO Uncleared Margin Rules (UMR)

> *"As a triparty collateral specialist, we have made a deliberate effort over the past four or five years to open up that collateral environment and to extend greater choice to users regarding how they apply those collateral services"*

for non-cleared OTC derivative transactions have been rolled out through a phased implementation since 2016 and, under Phase 6, will bring a greater number of buy-side firms into scope that had not previously been required to post initial margin and to manage variation margin in connection with their derivatives trading activity.

UMR Phase 5, which became effective in September 2021, impacted more than 300 firms, with the average aggregate notional amount (AANA) threshold set at US$50 billion. Phase 6 will lower the AANA threshold to US$8 billion, bringing a much larger community of buy-side firms into scope and requiring firms to identify which of their trading relationships will hit the US$50 million ceiling when each firm is required to post initial margin. Significantly, UMR rules also require that this IM is held in a segregated account at a third-party custodian.

This has resulted in a strong pipeline of buy-side firms approaching J.P. Morgan to provide an outsourced solution — reflecting that most buy-side firms may not have the operational infrastructure to manage these new inventory management style techniques in-house.

Product convergence

J.P. Morgan is well able to meet these requirements, Challice suggests, as a global custodian that has a large triparty business and integrated securities lending, financing and derivatives margin management functions.

A number of sell-side firms have already gone through comprehensive internal transformations designed to reduce fragmentation between internal product silos and to optimise their collateral use across derivatives trading, secured financing and securities lending activities. This has been key in helping these firms to unlock “trapped” assets, mobilising un-utilised or under-utilised collateral to bring greater efficiency to their secured financing activities.

For buy-side firms, while some large asset management clients have already been significant users of triparty services as collateral takers in securities financing or securities lending transactions, this penetration is likely to extend further as a wider range of buy-side firms fall into scope under UMR Phase 6. Many of these firms are expected to extend their current usage of the J.P. Morgan derivatives margining product from variation margin (VM) to initial margin (IM). Through use of the bank’s collateral transport platform, they can also mobilise and transform collateral — if it has greater lending value, or if it is the wrong type or in the wrong place to meet their collateral obligations — thus solving for their inventory management conundrum.

While there is convergence, this does not imply that there is homogeneity. Customers are moving at different speeds and have different levels of technical sophistication based on their business models and evolution. “Each customer is different and we offer a full set of modular outsourcing services to meet their specialised requirements,” says Challice.

Notwithstanding this focus on service flexibility, Challice also points to the scale benefits offered through J.P. Morgan’s integrated custody, collateral and securities financing operations. For example, BlackRock, the world’s largest asset management company by assets under management, is one of a number of large global buy-side firms that uses J.P. Morgan as its global custodian. While BlackRock uses its own in-house securities lending and liquidity management teams to manage its lending and financing trading activities, they rely on flow through the post-trade services provided by J.P. Morgan.

More broadly, the bank is monitoring opportunities to bring new asset pools into its securities lending and financing programme — working with wealth management clients, for example, to bring securities held in private investor accounts into the J.P. Morgan securities lending programme.

Recognising the growth in its business volumes over the past four years, Challice highlights the importance of the major investments that J.P. Morgan has made in its technology stack since 2017.
“Without this investment, the organisation would potentially have struggled to manage the business expansion and the sharp rises in volatility that have been witnessed at various points over the past 24 months,” says Challice. “This has been important in helping clients to maintain stability throughout the pandemic and the volatile geopolitical conditions, in part caused by the war in Ukraine, that we are now witnessing.”

In line with this message, J.P. Morgan has announced in public statements that it plans to spend upwards of US$12 billion on technology investment during 2022. On a recent analyst call, chief financial officer Jeremy Barnum said that J.P. Morgan is stepping into a “phase of acceleration” of investment spending, given the levels of competition that confront the bank. This was confirmed by chief executive Jamie Dimon, who said that the bank expects to “spend a few bucks” to beat its competitors.

Behind this talk of expansion, it is apparent that securities finance is not immune to the business pressures that have impacted custody and other asset servicing functions over a number of years. Competition generates pressure on business margins and participants face an ongoing battle to improve returns while managing cost — at the same time sustaining their commitment to product innovation, to upgrading technology and managing regulatory overheads.

For lenders, the challenges have centred on negotiating the spread compression that has impacted lending revenues owing to asset oversupply, and the need to manage cost pressures in the context of the increasing complexity involved in providing this service (owing to adherence to regulations such as the Securities Financing Transactions Regulation, the Central Securities Depositories Regulation and the second Shareholder Rights Directive for example). As a service provider, this has reinforced the importance of improving automation levels across the securities lending value chain and driving out operational risk and cost.

Digital integration

More broadly, steps towards digitisation continue to change how collateral management is performed. The digitisation of key legal and operational data has been important to support fast, efficient data exchange with counterparties and service partners — thereby enhancing straight-through processing rates across collateral processes and minimising STP breaks and manual touch points across the securities lending or financing transaction.

This has included steps to digitise collateral schedules, thereby enabling collateral selection and optimisation procedures to work more efficiently, while facilitating users' ability to meet CCP margin requirements via the J.P. Morgan CCP Margin Exchange (see further in SFT Issue 301).

In bridging the integration of digital assets more fully into the collateral management world, Challice describes the collateral managers' role as being a translation layer between the old world of physical settlement and a new, digitally-enabled world where assets can settle friction-free on blockchain.

"In this environment, we view our role as being one of collateral token agent, rather than simply as a triparty agent," he says. The central book of record held on distributed ledger technology provides a permissioned, centralised record of ownership of tokenised collateral transactions. J.P. Morgan applied this principle to launch a blockchain-based solution for intraday repo transactions in December 2020, utilising ethereum-based DLT technology developed by the firm's Onyx team.

Alongside this, J.P. Morgan has become an investor in HQLA^{X} through the series-B funding round that concluded in June 2021 and which raised €14.4 million. J.P. Morgan connected initially to the HQLA^{X} platform as triparty agent in 2021 and has been connecting its agency securities lending business to this platform during 2022.

The collateral mobilisation element is paramount, Challice indicates. The intraday repo service explicitly helps organisations to solve the intraday liquidity challenges that, in previous times, they were often forced to meet through unsecured lending. HQLA^{X} helps users to meet their requirement for mobilisation of baskets of high-quality liquid assets and to meet their collateral transformation needs in line with their capital adequacy, liquidity coverage and net-stable funding ratio requirements under Basel III.

Investment in data services and the ability to work with big data is essential in enabling these developments. "This aligns with the strategic priorities of the Securities Services division, where steps to develop data-led solutions for our clients remain high on our development agenda," says Challice. This centres on promoting data standardisation and in establishing a single source of truth — not necessarily built on DLT, but always offering a single, golden source copy of the data in a centralised location, often cloud-based, to ensure this can be accessed by all permissioned stakeholders.

> *"The digitisation of key legal and operational data has been important to support fast, efficient data exchange with counterparties and service partners — thereby enhancing straight-through processing rates across collateral processes"*

From a securities finance perspective, this is important in delivering to users an integrated view of their positions, collateral and liquidity. The bank is also investing to bring a wider range of delivery mechanisms to the user, including greater use of application-programming interfaces (APIs) to sharpen two-way system-to-system connectivity and to enable users to update collateral schedules or lending parameters directly from their collateral and risk management platforms. This is also supported by ongoing investment in its web-based user interfaces 'Securities Finance Central' and 'Collateral Central', which are accessed via J.P. Morgan Markets to enable access to data updates and programme analytics.

Unlocking global markets

Stephan Wolf, CEO of the Global Legal Entity Identifier Foundation, speaks to Carmella Haswell on the trials and tribulations of its universal project to onboard validation agents in preparing securities finance markets for upcoming LEI legislation

An initiative to ease regulatory compliance has resurfaced around the globe since it began in the fourth quarter of 2020. The Global Legal Entity Identifier Foundation (GLEIF) recently welcomed its first Legal Entity Identifier (LEI) validation agent in India — risk management and monitoring platform Rubix Data Sciences — after already onboarding validation agents in North America, Europe, Africa and China.

GLEIF, the Financial Stability Board-backed foundation based in Switzerland, introduced a validation agent framework in September 2020 and called on global financial institutions to become part of the LEI issuing process. The scheme is based on the understanding that banks are considered a trusted data source and seeks to leverage this by conducting company checks, and passing that validated data on to the LEI issuer as part of the LEI acquisition process.

> *"The Global Financial Crisis was a major point in time when the world was united. Regulators across the world mandated the LEI for counterparties in derivative trades"*

LEI issuers will leverage know-your-customer (KYC) and anti-money laundering (AML) procedures to aid clients in obtaining an LEI, in line with increasing mandates from regulators, including the Reserve Bank of India, the Securities and Exchange Board of India, and the Insurance Regulatory and Development Authority of India. All three institutions have mandated LEI usage across over-the-counter derivatives, credit borrowing, large-value payments, insurance and cross-border transactions.

A world-wide search

An LEI is a 20-character alphanumeric code that allows regulators to identify individual parties in a transaction. The Securities Financing Transactions Regulation (SFTR) will introduce a requirement for LEIs to be correctly indicated in transaction reports, irrespective of the location of the counterparties, the issuers of securities or the rest of the participants to an SFT, and regardless of whether these entities are subject to LEI requirements in their own jurisdictions.

Stephan Wolf, CEO of GLEIF, indicates a rapidly changing concept in the financial landscape, where participants are realising the value of the LEI. For instance, when participating in international trade, an LEI acts as a business' international passport. He says: "The Global Financial Crisis was a major point in time when the world was united. Regulators across the world mandated the LEI for counterparties in derivative trades. However, some regulators have been hesitant to enforce stricter entity identification, because the financial crisis did not originate in their country."

Observing the adoption of LEIs over each quarter, Wolf notes India and China are countries which consistently uphold the highest LEI growth rates. "The reason is not to protect the global financial market," he says, "but to support their organisations in the import and export of physical and digital goods. The use of the LEI in this way is now a major trend that we are pleased to see." To support this momentum, GLEIF has appointed representatives in Japan, Singapore, India and China to work with local authorities and businesses to further encourage LEI adoption in these regions.

However, the road to onboarding validation agents to assist these adoption efforts has not been an easy ride. Two of the main barriers facing GLEIF in their mission include contacts and publicity.

"It can be difficult for us to find the right people within a bank to start the process of becoming a validation agent. In cases where we have seen success, it happens that we know the people responsible for entity record management. But at other large financial institutions, it is not always clear," Wolf explains. "That is a challenge — first finding the right people and then contacting them, convincing them and showing them the potential benefits."

Despite these constraints, a McKinsey study has proven helpful in this quest to onboard validation agents, highlighting how banks could save US$650 million annually by encouraging broader global adoption of LEIs.

In terms of publicity, Wolf notes that there is an issue with validation agents speaking openly about their work. He adds: "Unfortunately, banks are very private and do not want to overtly share their processes. We have validation agents, large organisations that are already operational, who do not allow us to mention them publicly, because banks fear that it would expose their client base.

"For example, if you had an uptick of 50,000 LEIs a day, and at the same time, announce the onboarding of a large bank to the programme, people could make the connection."

Attaining the international passport

Currently, SFTR regulation is accepting reports without the LEI of third-country issuers of securities which are lent, borrowed or provided as collateral in an SFT. The European Securities and Markets Authority (ESMA) expects national competent authorities to avoid supervisory actions in relation to reporting of LEIs of third-country issuers until 10 October 2022, after an 18-month extension.

The Financial Conduct Authority (FCA) has also offered an extension on these reporting demands, to align more closely with ESMA's deadline. The original deadline for UK SFTR was 13 April 2021, which was extended by 12 months to April 2022. However, the FCA has further extended this by another six months, delaying reporting until 13 October 2022.

The need for the extensions was to avoid market disruption after large gaps remained in LEI coverage outside of the European Economic Area. Previously, there were concerns that companies in smaller countries might have an issue in obtaining an LEI. In response, GLEIF ran a research study with the Asian Development Bank to assess whether large and small companies in developing countries — including Bangladesh, Cambodia, Samoa and Mongolia — could acquire an LEI relatively easily and at reasonable cost.

The report found that it was 'a breeze' to obtain an LEI in each of the listed countries, where multiple LEI issuers are available to help. Of those surveyed, 87 per cent of participants rated the LEI registration process as 'very easy', 'easy' or 'average'. The study also disclosed that 65 per cent of participants paid US$75 or less to acquire an LEI.

Difficulties were found, however, with small and medium sized enterprises (SMEs) entering international markets. The barrier was discussed by co-founder and CEO of Rubix Data Sciences Mohan Ramaswamy, in the wake of Rubix Data Sciences becoming a validation agent in India. Speaking to SFT, Wolf explains that SMEs, which make up 90 per cent of businesses globally, struggle to access finance, form partnerships and trade overseas if they are unable to prove their identity.

"This is particularly difficult for SMEs in developing markets, where they may be perceived to be higher risk by potential partners. Banks are prohibited from offering them trade finance without undergoing painstaking and costly KYC and AML checks — processes which are hampered without a verified identifier," notes Wolf.

He continues: "An LEI enables SMEs to apply for trade finance and establish contractual, regulated agreements with banks, payments networks and trading partners."

The next chapter

Forecasting which route this standard of practice on LEIs is heading, Wolf anticipates a broad pick up from the US, Canada, Mexico and the far East, with advancements being made in Asia, India and China.

Using the American Customs and Border Patrol as an example of greater LEI adoption, Wolf says that the government organisation has launched a project to test the use of LEI as a business identifier for import and export customs declarations. "This is a completely new use case for the LEI and could lead to a significant increase in its adoption should every exporter to the US require one," says Wolf.

This theme can also be seen in China, which has walked a similar route in mandating LEIs for several countries, according to Wolf. He notes that Europe is 'well covered' with work still being done across the region to increase its adoption, such as the European Banking Association continuing to mandate the LEI for various use cases.

Speaking to SFT about future steps, Wolf says: "LEI adoption is currently weak in Africa. We have good coverage in Nigeria and South Africa, but less so in the Sub-Saharan area." As part of its roadmap to advertise the LEI and work together with international organisations to foster its adoption in Africa, GLEIF recently ran a project to onboard NMB Bank in Zimbabwe as its first African validation agent.

"In doing so, we were able to showcase how the LEI could help African companies to easily participate in global trade," says Wolf. "We have no pickup of the LEI in South America. Everywhere else in the world, you see growth potential and people endorsing the LEI."

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UK SFTR validation rule revisions will not crack the data quality conundrum

Jonathon Lee, senior regulatory reporting specialist at Kaizen, examines the introduction of new SFTR validation rules in the UK, indicating that this is the time for firms to reassess their control environments, ensure that all in-scope transactions are reported and to consider implementing quality assurance

Monday 11 April saw new Securities Financing Transactions Regulation (SFTR) validation rules come into force for UK SFTR. The validation rules provide a framework for how the reporting schema, the ISO 20022 XML format, must be populated in relation to each transaction type and lifecycle event carried out by an SFT business and reported to a trade repository (TR). Be aware that the validation rules are the most basic conditions that need to be met to submit transaction and lifecycle event reports to a trade repository; they do not offer any further guarantees that reporting is complete or accurate.

These new rules are already very familiar to reporting counterparties with EU obligations, given that they are essentially a carbon copy — and those rules went live on 31 January 2022. It has certainly been a challenging two and a half months for firms with obligations under both jurisdictions as they have had to run a two speed validation rule process, continuing to apply the old rules in the UK while adopting the new rules for transactions routed through the EU trade repository. There is quite a significant change for those that only have an obligation under UK SFTR.

Essentially, the changes require more granular counterparty data across more action types and a number of clarifications around the loan and collateral data fields. This represents a tightening up of the original validation rules and the removal of some of the loopholes. This should, in theory, make it easier for regulators to monitor the lifecycle and evolution of transactions, enhancing the link between loans and their respective collateral.

Optional fields

The opportunity to mop up all of the optional fields with appropriate conditionality was sadly missed. Unfortunately, some reporting counterparties have taken it upon themselves not to report any fields marked in the validation rules as optional, which is not in keeping with the spirit of the regulation. Regulators have repeatedly stated that optional does not really mean optional if the field in question is applicable to the transaction or lifecycle event and known. For example, if the SFT involves loaned securities or securities used as collateral, it remains optional to state who the Central Securities Depository (CSD) participant or indirect participant is – which is clearly known at point of execution. Reading the regulatory technical standards and guidelines makes it clear that these fields are required, but these requirements are not rigidly applied through the validation rules. Contradiction and multiple permissible field populations are the bane of reporting counterparties, particularly in relation to reconcilable fields.

The new validation rules are a baby step towards providing the industry with far greater regulatory certainty. However, they do not go nearly far enough in addressing widespread data quality issues or being sufficiently prescriptive to reduce the operational burden on reporting firms. This operational burden is represented by the number of manual touchpoints for each transaction to ensure that the reports are accepted by the TR, they pair and match where reconcilable and that the necessary controls are in place to ensure that reports are complete, accurate and timely. The data quality concerns are amplified every time we test valid but wrong reports (that have passed the validation rules at the trade repository) but still contain incorrect data.

Neither the validation rules nor the schemas prevent fields being populated with wholly spurious data. Given the severely limited scope of trade pairing and matching through the trade repository reconciliation process – around 90 per cent of UK SFTR reports are single sided — many reports are entering the TR completely unchecked.

Evidence is mounting of growing regulator scrutiny. The latest European Securities and Markets Authority (ESMA) Data Quality report (see page 31 and chart 34) highlighted an instance in which action was taken by a national competent authority (NCA) to correct a reporting counterparty's failure to terminate their open trades — which is the most public example of this. Ultimately, regulator investigations are likely to evolve from private review towards more public censure and fines. The data quality report also highlighted that "Reporting counterparties are expected to have processes, systems and controls in place to ensure completeness, accuracy and timeliness of the reported information."

Ahead of the Financial Conduct Authority (FCA) publishing their own guidelines, Q&A and data quality reports, UK counterparties should also take note. Now is certainly the time for firms to re-assess their control environments, ensure that all reportable transactions and lifecycle events are reported and to consider implementing quality assurance through regulatory testing solutions.

Latest industry appointments at Vanguard, Clear Street and DTCC

Martin Hodgson joins Britannia Global Markets securities finance team as collateral manager.

Based in London, Hodgson’s role will involve collateral management and margin functions.

His knowledge and skill set will complement senior staff members supporting the securities finance offering from Britannia Global Markets.

Hodgson brings more than 25 years of experience in financial services to the role, having held several positions at GNI, MF Global, Macquarie and Panmure Gordon, supporting products including stock lending, repo, prime brokerage and collateral management.

He joins the firm from Dinosaur Merchant Bank, where he was securities finance manager for the bank’s London office.

Robert Miller has been appointed head of global equity execution consulting at investment manager Vanguard.

Miller is promoted from execution consultant after joining the firm in 2019 and will move to Vanguard’s headquarters in Malvern, Pennsylvania.

He will continue to report to Miles Huffman, global head of transaction cost analysis. Miller will take a leadership role in the firm’s global execution consulting team for the equity index group and quantitative equity group.

Miller joined Vanguard from Berenberg, where he was equity algo trade specialist from 2017 to 2019.

Prior to this, he spent a decade with Edmond de Rothschild as multi-asset trader and quantitative analyst.

A spokesperson from Vanguard comments: “Transaction cost analysis is a critical

Societe Generale appoints Jane Karczewski

Jane Karczewski has joined Societe Generale as UK head of asset manager and hedge fund sales.

She will report to Antoine Broquereau, UK head of global markets at Societe Generale, and will be based in London.

In this newly created role, Karczewski will be responsible for defining and implementing the bank’s commercial strategy with UK-based hedge fund and asset management clients. She will be working closely with sales, trading and client coverage teams across the organisation.

Jane Karczewski moves to Societe Generale from her previous position as head of global custody at HSBC.

She has more than 28 years’ experience in trading, sales and product development, having held senior roles at Morgan Stanley, Deutsche Bank and Citi.

Karczewski is also a prominent diversity advocate, having been co-chair of the Citi Women group when working with that organisation. She is chair of the London Women’s Forum and holds a position on the Forum’s board of directors.

function at Vanguard. It enables us to examine the total cost of trading, which can shape our future execution strategy and help give investors the best chance of investment success. Since joining Vanguard in 2019, Robert has had an outstanding impact on our trading strategy and processes working on our UK equities trading desk.

"Robert will continue to share his wealth of talent and trading expertise. We would like to take the opportunity to thank Robert for his contributions thus far and also share our congratulations as he transitions into this new role."

Clear Street has announced its expansion into the Dallas market, following its growing prime brokerage sales and trading team.

Led by head of sales and trading, Joseph Ricciardi — who has more than two decades of experience in equity trading for buy and sell-side clients — a number of seasoned professionals have joined the team.

Dan Mele is appointed managing director of sales and trading and Dallas branch manager. He joins the company after four years as an equity trader at National Securities Corporation.

Mele previously held roles in trading at Jefferies WFG Investments and Esposito Securities, LLC.

Mark Hall becomes managing director of sales and trading, bringing more than 27 years of experience to the firm.

Previously, Hall served as an equity trader at several firms, including Fidelity Investments, Capital Institutional Services, WFG Capital Markets and National Securities Corp.

Clear Street also hires Danny Shapiro as director of sales and trading. He enters the company with more than seven years of experience in equity sales.

Prior to his new position, Shapiro held roles in equity sales at Citi, Credit Suisse and Stephens Inc.

The Depository Trust and Clearing Corporation (DTCC) elected two new members to its board of directors during the annual shareholders meeting, William Capuzzi and Kelley Conway.

As a post-trade infrastructure for the global financial services industry, DTCC's board is responsible for determining the strategic direction of DTCC, as well as providing oversight and guidance on risk management, regulation, technology, innovation, and new product development.

Capuzzi is CEO of Apex Fintech Solutions, where he is responsible for setting the company's vision and strategy to identify new areas of growth and opportunity.

With more than 20 years' experience in the trading, clearing and custody business, Capuzzi previously held senior leadership roles at Convergex, Pershing and DLJ.

Conway is executive vice president and head of corporate and digital strategy at Northern Trust. In this role, she leads Northern Trust's strategic planning process and enterprise digital strategy, including its roadmap to enhance client experience and improve security, stability and scalability.

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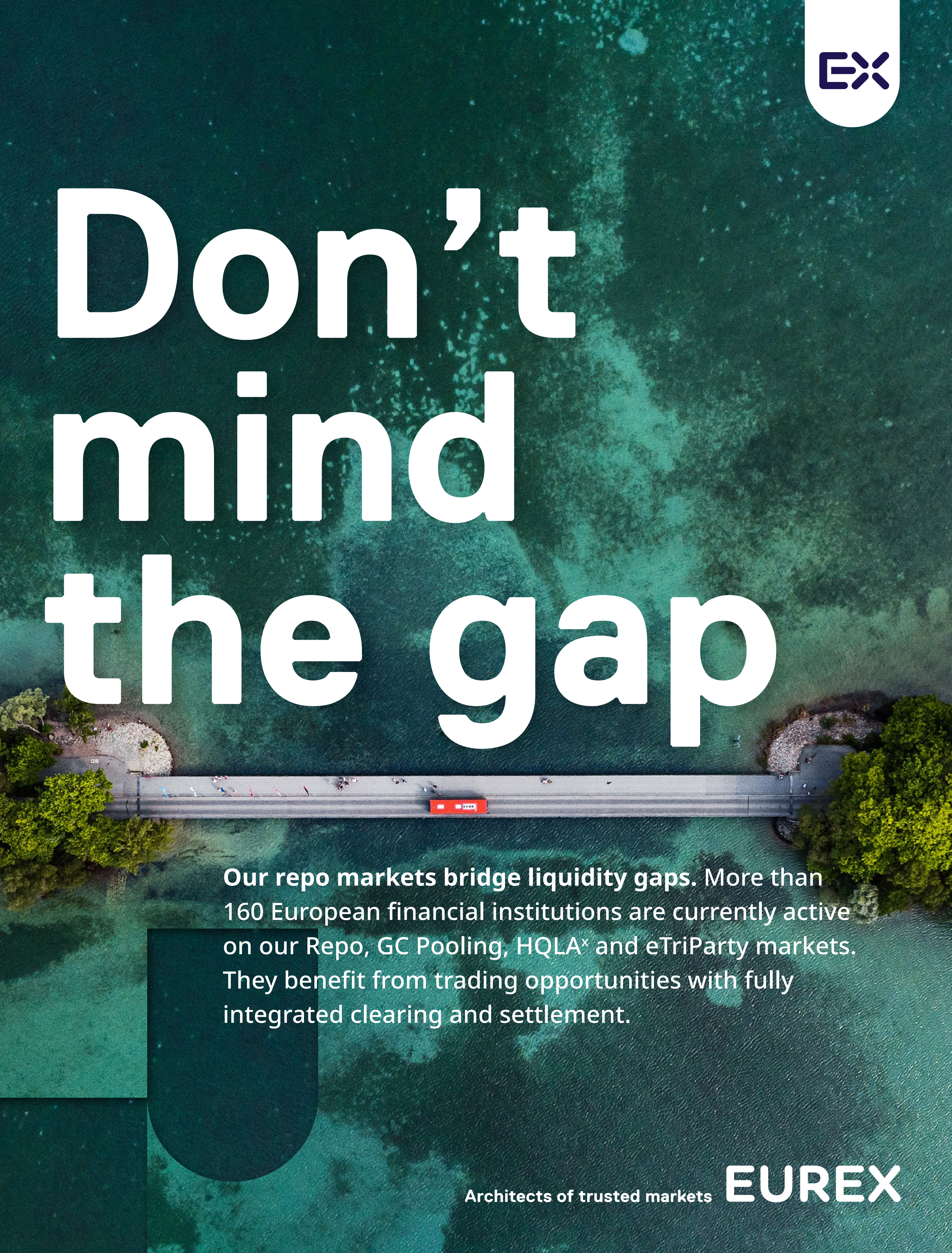
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