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DEMOCRATISING SECURITIES LENDING

Sharegain's Keren Halperin speaks to SFT about share ownership rights, how to scale a fintech and lessons that yoga and surfing can offer to solutions development

CFETS and Clearstream trade first triparty repo on ESG bonds in China

The China Foreign Exchange Trading System (CFETS) and global post-trade provider Clearstream have entered into an infrastructure cooperation to support triparty repo using ESG-compliant bonds.

The move enables Chinese market participants to trade environmental, social and governance (ESG) eligible triparty repo.

The repo trades are executed on CFETS' bond and FX trading platform on the Chinese mainland, with Clearstream serving as triparty repo agent and supporting associated collateral management, settlement and custody requirements.

The first set of triparty repo transactions were conducted by China Construction Bank, China Merchants Bank, Crédit Agricole CIB, Industrial and Commercial Bank of China and Shanghai Pudong Development Bank.

All participants selected eligible ESG bonds based on dedicated baskets provided by Clearstream.

The infrastructure cooperation aligns with Clearstream's goal to support investors that are seeking to include ESG aspects in their investment decisions, according to Philip Brown, CEO of Clearstream Banking S.A.

Commenting on the news, Jiawen Peng, general manager of asset and liabilities management department at China Merchants Bank, says: "Repurchase transactions are an important financing tool in the interbank foreign exchange market.

"These triparty repo trades on ESG eligible foreign currency bonds are the result of joint efforts made by domestic and foreign institutions to promote the development of FX market infrastructure, which will further promote the development of green finance."

Xiaoming Zhu, head of the Global Markets division at Crédit Agricole CIB, adds: "We have been adhering to the philosophy of actively promoting green finance, and developing more diversified green finance solutions, to support our clients to achieve their sustainable development goals."

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Dave Williams Memorial Golf Day

The annual Dave Williams Memorial Golf Day will be hosted on 23 September at Surrey National golf course.

In two weeks, the industry will come together to raise money for charity in memory of Dave Williams, who sadly passed away in 2015.

With 80 players already registered from the securities finance industry, there are a few remaining four-balls available.

This year's chosen charities are The Lord's Taverners and Friends of Shelby Newstead — a Kent-based charity formed in 1996, which aims to help improve the lives of children with debilitating and life-threatening diseases and illnesses.

If you would like to join the day, please email Jonathan.hodder@transcendstreet.com

PGGM becomes GPFA member

The Global Peer Financing Association (GPFA) has announced that pension fund service provider PGGM has joined the global buy-side association.

PGGM, a Netherlands-based organisation, is GPFA's 28th member globally. GPFA members represent more than US$10 trillion in assets as a beneficial owner community.

Growing the GPFA beneficial owner community across EMEA and APAC is imperative for the organisation, which aims to evolve the global securities financing industry for beneficial owners.

Commenting on the news, GPFA says: "PGGM is a leader in valuing health and welfare through sustainable pensions in Europe, and we are fortunate to add their voice to our beneficial owner discussions."

Members of GPFA's community work to share best practices and knowledge related to securities finance, as well as support and increase peer-to-peer securities financing trading activity.

Basel changes could trigger 35% decline in sec lending income for Europe's buy-side

New EU capital rules scheduled for implementation in 2025 are likely to trigger a sharp rise in trading costs for buy-side firms in Europe, according to research from Credit Benchmark.

These changes could result in up to a five-fold increase in the capital cost for banks of engaging in securities financing trades with pension and collective investment funds, according to the report, EU Capital Rules to Increase Buy-side Trading Costs, authored by Credit Benchmark risk advisor Thomas Aubrey.

With this in mind, Credit Benchmark indicates that the securities finance industry needs to work together to ensure that European savers and investors do not lose out when these new Basel changes are implemented.

The London-based credit consensus ratings and analytics company predicts that these changes may contribute to a 35 per cent decline in the securities lending income generated by European buy-side institutions, causing lending income to contract from its current €1.2 billion to less than €800 million.

It predicts that these changes are also likely to reduce market liquidity and to widen bid-offer spreads, resulting in a potential increase in the annual cost of trading of between €20 billion and €40 billion.

Responding to these changes, Credit Benchmark questions whether the proposed increase in capital costs borne by banks under the new Basel rules are warranted on the basis of the associated risk of default.

Credit Benchmark found that the average probability of default of 27 sovereign institutions that are rated aa- and above is 2.4 bps and these institutions could continue to receive a zero per cent risk weight under the new Basel regime.

In contrast, the average probability of default for pension funds and mutual funds rated aa- and above is only marginally higher, at 3.8bps, according to the credit analytics company. Many of these 4600 or so funds currently have a IRB risk weight of less than 10 per cent, but this is destined to jump to 65 per cent risk weight under the new rules.

These developments relate to proposals

advanced by the European Commission in October 2021 to revise Capital Requirements Regulation 575/2013. Critics are concerned that changes proposed under the new Basel regime will result in a sharp jump in bank's capital requirements owing to a rise in risk weights for their exposure to unrated corporates, including pension and mutual funds.

The aggregate output floor requires a bank's risk-weighted assets using an internal ratings-based approach (IRB) to be no lower than 72.5 per cent of RWA calculated under a Basel standardised framework.

Under the revised Basel regime, highly rated corporates with no external rating would experience a large jump in risk weight to 100 per cent.

Many pension and mutual funds — which are classified as corporates under this regime — do not commission an external rating owing to the cost involved and because they have little need to raise capital in the capital markets.

Responding to these concerns, the Commission has recommended a transitional arrangement for unrated corporates and funds, where IRB institutions apply a risk weight of 65 per cent to their corporate and fund exposures that do not have an external rating, providing these have a probability of default of less than 50bps.

Despite the more favourable capital treatment under this transitional proposal, Credit Benchmark concludes that the new rules are still likely to have a dramatic effect on the buy side, resulting in reduced market liquidity and wider bid-offer spreads that will drive up costs for pension and mutual funds.

Tradeweb reports 16.7% rise YoY in repo ADV for August

Repo average daily volumes traded on Tradeweb increased 16.7 per cent YoY for August, rising to US$369.6 billion.

Tradeweb reports that stronger client adoption of its electronic trading solutions powered

a rise in global repo activity, even though heightened use of the Federal Reserve's reverse repo facility to access liquidity weighed on the repo market overall.

The US-based provider of electronic trading for rates, credit, equities and money markets indicates that average daily trading volume for the month of August was up 13.0 per cent YoY to US$1.02 trillion.

Trading of government fixed income securities on Tradeweb rose during August, with US government bond ADV up 0.7 per cent YoY to US$124.2 billion and European government bond ADV rising 22.7 per cent YoY for February to US$27.5 billion.

Tradeweb reports that client engagement remains high in US government bonds across institutional and retail markets, while rising interest rates have fuelled growth in the retail market. In European government bond markets, trading activity remained strong on the back of heightened volatility in rates markets.

Average daily trading volume for swaps and swaptions rose 34.0 per cent YoY to US$169.4 billion for February, with ADV for interest rate derivatives climbing 26.4 per cent YoY to US$283.5 billion.

In credit markets, fully electronic US credit ADV was up 14.8 per cent YoY to US$3.5 billion for August, with European credit ADV contracting 9.6 per cent YoY in USD terms to US$1.0 billion.

August also delivered a sharp rise in credit derivatives ADV, which was up 95.0 per cent YoY to US$11.4 billion.

OCC cleared securities lending volume up

Securities lending transaction volumes cleared through OCC have increased by 20.4 per cent year-on-year, totalling 204,760.

However, the average daily loan value for securities lending trades has decreased 4.54 per cent to US$120.49 billion for August 2022 relative to August 2021.

The total average daily volume for all options cleared through the Chicago-based clearing house has risen 4.2 per cent to 40.34 million YoY.

This has been driven by a 48.9 per cent spike in ETF options to 15.27 million year-to-date, in addition to a 37.9 per cent YoY increase in index options to 2.6 million ytd.

In terms of equity options, the ytd ADV has dropped 15.5 per cent to 22.3 million from 2021 to 2022.

Total monthly cleared futures and options volume through OCC has increased 13.3 per cent to 912.51 million contracts for August 2022 relative to August 2021, representing the third highest month in OCC history.

Trade associations appoint FINOS for CDM repository

The International Capital Market Association (ICMA), International Securities Lending Association (ISLA), and the International Swaps and Derivatives Association (ISDA) has appointed FINOS to run a repository for the Common Domain Model (CDM).

The Fintech Open Source Foundation (FINOS) will provide a repository to foster the growth of an open-source community for the CDM. The appointment of FINOS will advance the development and increase the speed of adoption and distribution of the CDM, with a view to migrate to FINOS by the start of 2023. The model will then be distributed on an Apache licence-standard for open-source software.

In May 2022, the associations held a service proposal to meet the requirements of providing a repository for the open-source CDM, which establishes a single, common digital representation of trade events and actions across the lifecycle of financial products.

The requirements included maintenance of the CDM code, facilitating the growth of a community to contribute to the development of the CDM, and allowing for governance of the contributions to be overseen by the associations.

Commenting on the news, Andrew Dyson, CEO at ISLA, says: "Fostering an open-source community through FINOS's global reach and resourcing will ensure faster development and convergence on standards.

"Appointing FINOS moves forward the long-term strategy agreed on by the associations in our Memorandum of Understanding and importantly should ensure acceleration of adoption."

Bryan Pascoe, ICMA CEO, adds: "The collaboration with FINOS marks a milestone in promoting open and common standards across financial markets. The CDM, as a cross-industry initiative, plays a key role in supporting the digital transformation of capital markets, fostering interoperability and cohesiveness through FINOS' open-source framework."

According to ISDA CEO Scott O'Malia, having a completely transparent, open-source CDM maintained by FINOS and supported by three trade associations will help accelerate adoption, bringing greater consistency across derivatives, repo and securities lending.

O'Malia concludes that the move will avoid fragmentation of standards and duplication of effort across the industry.

Global securities lending revenue rises 10% YoY for August, says DataLend

The global securities finance industry generated US$878 million in revenue for lenders in August 2022, representing a 10 per cent increase year-over-year from August 2021, according to DataLend.

Compared to the previous month, the revenue generated for lenders in August 2022 contracted 6 per cent from the US$939 million generated for lenders in July 2022.

According to the market data service of fintech EquiLend, global broker-to-broker activity — where broker-dealers lend and borrow securities from each other — totalled an additional US$242 million in revenue in August 2022, a 15 per cent increase YoY.

The increase in lender-to-broker revenue over 2021 was driven primarily by North American equities, where average fees increased by 36 per cent, resulting in a 36 per cent rise in revenue generated.

In the Asia Pacific region, equities saw a decline in revenue of 21 per cent due to a decrease in average fees of 15 per cent.

In EMEA, equities lending revenues fell 35 per cent, driven by a reduction in average fees of 54 per cent over 2021.

For fixed income securities, global revenue generated from government debt rose 11 per cent, while corporate debt increased 98 per cent. Both increases in revenue were driven by rises in the average fees of 15 per cent and 83 per cent, respectively.

The top five earners in August 2022 were

Gamestop Corporation (GME)
Beyond Meat (BYND)
Lucid Group (LCID)
Sirius XM Holdings (SIRI)
Dutch Bros (BROS).

The five securities in total generated over US$117 million in revenue in the month.

ASIC warns brokers considering high-risk offers on securities lending

The Australian Securities & Investments Commission (ASIC) has warned brokers to reconsider offering high-risk products and services to retail investors.

These high-risk products include securities lending, crypto assets and offers of 'zero' or 'low-cost' brokerage — where the true cost is masked.

The ASIC has experienced an increase in the number of brokers offering securities trading since the onset of the COVID-19 pandemic. However, recent changes in the market have dampened retail investor activity.

To broaden their revenue base, some brokers are seeking to offer retail investors high-risk products or services that may be unfair, inappropriate or result in poor outcomes, according to the Australian securities markets regulator.

Design features that may be classed as unfair or inappropriate include the bundling of securities lending with other services, or automatic opt-in of clients to securities lending.

In Australia, securities lending has generally been limited to institutional investors that have the size, scale and sophistication to understand and manage the risks.

ASIC suggests that securities lending is complex and may be difficult for retail investors to understand, therefore, they should be aware of features where there is no pre-qualification or vetting of investors, and a fee split that is heavily skewed in favour of the provider.

Democratising securities lending

Sharegain's deputy CEO and chief of staff Keren Halperin speaks to Bob Currie about democratising share ownership rights, how to scale a fintech and lessons that yoga and surfing can offer to solutions development

“The evolution of democracy is not possible if we are not prepared to hear the other side,” said political philosopher and activist Mohandas K. Gandhi, speaking in 1917 in the early days of his campaigning for India’s self-rule.

Close to a century later, this spirit of inclusivity and consociation has come to play an important role in guiding effective technology development and fintech innovation, shaping a dialogue between business and product experts, developers and the customer that is integral to iterative and collaborative project management methodologies such as Agile.

Sharegain has campaigned energetically since its inception around the requirement to democratise the securities lending industry. Explaining its rationale, Halperin observes that an established group of institutional investors has long engaged in securities lending — but, beyond this, a large community of financial institutions, including retail-facing wealth managers, online brokers and private banks, currently do not lend securities for a mixture of technical, operational or cultural reasons — in many cases because they do not appreciate the benefits or they do not have the necessary pipework.

Sharegain has made it its mission to offer an end-to-end solution that encourages wider participation, providing organisations with all that they need to lend their securities.

One fundamental step in bridging this gap is to meet the technology requirement — and Sharegain has adopted a creative approach to technology delivery through a microservices-based turnkey lending infrastructure and a cloud-based -as-a-service solution developed through its Israel-based technology team.

Beyond this, there is a fundamental knowledge gap — recognising that there is a large untapped pool of lendable assets held with institutions that have never engaged in securities lending and are not yet convinced this is right for them. This has demanded a proactive approach — knocking on the door of prospective lenders to explain the benefits of lending and their most effective routes to market.

In providing for this under-represented market segment, Halperin believes that the Covid pandemic has altered the landscape for many financial intermediaries, triggering wider private investor participation in capital markets and prompting service providers to explore new ways of working and new delivery models.

This has resulted in a steepening of the sales pipeline, particularly among retail-facing intermediaries such as wealth managers and private brokers, but also other prospect clients such as medium and small-sized custodians that do not have their own securities lending trading capability and require access to a lending infrastructure before they can support lending activity.

To meet this need, Sharegain has developed a Securities Lending as a Service (SLaaS) solution, through which Sharegain provides a cloud-based lending solution to direct clients, removing the need for these users to have their own on-premise lending infrastructure.

It also offers a Securities Lending Technology (SLTech) solution, through which it provides lending technology to financial intermediaries. The company’s partnership with Citi, launched in March 2021, has exemplified this approach, offering an automated securities lending solution to wealth management firms for Citi’s clients.

The joint venture was born from the shared vision of Sharegain’s CEO and founder, Boaz Yaari, and Stuart Jarvis, EMEA head of agency securities lending at Citi. The implementation for this automated securities lending solution was a partnership between Sharegain and Citi’s D10XSM programme, a strategic growth initiative that invests in fintech and business innovation.

Sharegain’s securities lending services are offered on a revenue-share basis, whereby users pay a fee as a percentage of the lending revenue generated via the Sharegain solution, enabling users to establish lending services based on variable rather than fixed cost.

Legacy free

In providing for an industry that can be held back by ageing technology, Keren Helperin believes it has been an advantage for Sharegain to be starting from a blank canvas, unimpaired by legacy technology. “This minimised the constraints that we faced in terms of how we could build the system,” she says. “The goal was to democratise the lending markets and, to do so, it was essential that we could offer flexibility.”

Since then, the release pipeline has been constant, says Halperin, in catering for the needs of both borrower and lender. This is driven by close dialogue with users, with the product and developer teams evaluating client feedback and integrating this, when appropriate, into Sharegain’s solutions development.

This strategy underpins the values that Sharegain aims to promote as a company. “Transparency runs hand-in-hand with democratisation and we aim to build transparency into our business culture at all levels,” says Halperin. The full Sharegain team meets each week to review major developments from the week just passed and to map out the company’s objectives for the period ahead. Each staff member, from new entrants to the chief executive, is encouraged to share their opinion on how a project or process can be run most effectively. This aligns with the emphasis on participation and engagement highlighted earlier in this article.

A second fundamental principle is proactivity. Identifying itself as a frontrunner in this space, Sharegain believes it has a responsibility to push the market forward and to challenge outmoded or suboptimal ways of working.

Positivity underpins each of these constitutional foundations. This is embedded in a constant drive to improve customer outcomes and to build better solutions. “This approach demands a lack of ego,” says Halperin: “To hear the views of all participants, to learn from their viewpoint, this requires that we approach the dialogue with a positive mindset”.

On top of this, we should not understate the value of hard work. As a surf enthusiast, Halperin explains that it is important to enjoy the paddling since time travelling out to meet the surf far outweighs that spent riding a wave into the beach. So too, behind every product release there is likely to be multiple iterations of design, build, test and refine — with input from key stakeholders — that make up the fundamental building blocks of the Agile development cycle.

When applied effectively, this method can deliver impressive results. Sharegain cites an example where a client with over US$50 billion in assets under custody was seeking to extend securities lending services to its clients as an additional source of revenue. For the company, this presented a dilemma — whether to outsource to a global custodian programme or to build a securities lending offering themselves.

In the event, they chose a third route offered by Sharegain — to source an integrated end-to-end lending solution. The mandate from the client was to deliver an automated, scalable securities lending offering, with no back-office, no overheads and full flexibility to offer different terms to its various client types. “Within 14 weeks, we had established a scalable securities lending programme with no expenses on their side,” says Halperin.

Fundraising

In February 2022, Sharegain confirmed that it has raised US$64 million in a series B funding round led by WestCap and supported by Citi, EJF Capital LLC and Optiver PSI, with further participation from existing investors including Maverick Ventures Israel, Blumberg Capital, the Kessler Family Office, Rhodium and SixThirty. Sharegain indicates that this is the largest series B funding round to have been completed to date for the securities lending industry.

The shareholders, she confirms, are playing a key role in Sharegain’s growth, with many of these investors having a detailed understanding of the securities lending industry and experience in building enterprise fintech solutions. Following the funding round, WestCap partner Scott Ganeles has taken a seat on the Sharegain board.

Halperin likens scaling a fintech company to a headstand in yoga. While the head and the legs are important, the key to success is establishing a strong core — and Sharegain’s ongoing development strategy is focused on building its core strength. This requires a leadership group that has deep knowledge of securities lending markets and can inspire and motivate their co-workers, enabling the company to grow without losing the creativity, agility and pioneering spirit that it embraced as a start-up.

In meeting this requirement, Sharegain has strengthened its team in key areas — including the recent appointment of Sam Tuliebitz as head of business development and Alex Panaite Fornari’s appointment as Sharegain general counsel in late 2021, with more senior appointments to be announced soon.

In sourcing new talent, Sharegain appointed a summer class of university graduates, recruited in London and Israel, during the summer of 2022, boosting its staff complement to more than 70. The company’s senior management continues to take a hands-on approach to the appointment process, with Halperin or chief executive Boaz Yaari, involved in the interview process for each new joiner.

Life skills

From our conversation, it is evident that Halperin’s education and career experience have been important in delivering skills that align closely with Sharegain's approach to the business. Having built strong foundations in science and mathematics during her schooling, Halperin served in a technology role in the Israeli intelligence force during her period of military service.

On securing a teaching certificate, Halperin then spent a period teaching robotics to 8th-grade students prior to studying law and economics at university.

Combining this expertise with an enthusiasm for trading and capital markets, she joined one of the first algo-trading companies, Final, back in 2005, and straight after took a position in the legal division at the Tel Aviv Stock Exchange, working for seven years as part of a team that defined the execution venue's market governance and trading rulebook. At a time when relatively few women held senior roles in global capital markets infrastructure, the Tel Aviv Stock Exchange was noteworthy for having strong female representation at executive level, with Ester Levanon as chief executive, and women also leading the bourse's finance department and legal services teams.

"With this background and experience, my decision to join Sharegain in 2018 as deputy chief executive and chief of staff felt like the pieces in a jigsaw puzzle coming together," says Halperin. The company was much smaller at that time, requiring that each staff member wore multiple hats and applied their skills to a multiplicity of roles. In the early days, much time was spent knocking on clients' doors and sharing the message of democratising securities lending markets.

As the company has grown, the parallel challenges of client onboarding and solutions delivery have become increasingly important, alongside client acquisition, in keeping pace with this pipeline of new business.

In building for the future, Halperin says that Sharegain's target market lies in retail-facing financial institutions, which is central to promoting a democratisation of the securities lending business. But, in principle, the company is able to offer a securities lending infrastructure to financial institutions of all shapes and sizes.

To extend its regional coverage, Sharegain opened a New York office in June, providing a launch pad for its expansion to the US and its ability to extend securities lending out to a wider community of lenders and borrowers.

Looking beyond its securities lending solutions, Sharegain also announced in May that it had become the first company globally to offer SWIFT messaging connectivity via public cloud, reducing messaging infrastructure overheads for existing SWIFT users and lowering barriers to entry for new users by enabling them to use cloud-based messaging. Previously users needed to maintain messaging hardware in-house within their own data centres, or they would need to outsource this requirement to a SWIFT service bureau — and Sharegain played a key role in partnering with SWIFT to develop this cloud connectivity.

According to Sharegain, the collaboration illustrates what can be achieved when top tier global players and trailblazing fintechs collaborate for the wider benefit of all market participants. In creating this Alliance Connect Virtual product, SWIFT has established public cloud connectivity in partnership with major cloud services providers Amazon Web Services, Google Cloud and Microsoft Azure, streamlining the way that financial institutions can connect to the SWIFT financial messaging service.

In September, Sharegain will co-host the latest meeting of Women in Securities Finance. Continuing the momentum established by the group, this meeting will aim to encourage new and younger joiners to become part of the initiative. In addition to expanding participation, the meeting will tackle questions that many in the past have wanted to discuss but were uncomfortable to raise. "Given our commitment to transparency and proactivity, we recognise that it is sometimes necessary to rock the boat and to become more direct in our discussion content," she says. The industry requires more diversity in many areas — and young women who have excelled in maths and science subjects at school are often not continuing into science and computing pathways or capital markets, at university or in their employment. "We have a commitment to proactively address this shortfall — creating opportunity and confidence for women to excel in these parts of the industry."

For Halperin, this event provides another example of how Sharegain's ambitions have expanded beyond securities lending technology and expertise. "We are working, with our clients, partners, investors, and other stakeholders, to reimagine how the industry as a whole can be made more transparent, efficient and open, as well as how ownership rights – like being able to lend what you own – can be democratised across wider capital markets," she concludes.

A digital takeover

Wematch's co-founder and head of EMEA David Raccat speaks to Carmella Haswell about the search for digitised processes, battling through a volatile market, and going global

Gaining in momentum, digitisation is set to go global as far as Wematch is concerned, as the firm expands its footprint in the US and Asia-Pacific markets. It aims to extend its digital solutions to support the capital market, and tackle the pain points of the digital space with a click-based approach.

An acceleration in digitisation has been driven by multiple factors, which has placed an increasing significance on the search for digitised processes, according to David Raccat. Regulation, compliance and conduct risks, operational risks, and market risks have led to the increase in digitisation that Raccat has seen since the launch of Wematch in 2017.

The importance of digitised processes circulates around its ability to tackle all of the aforementioned risks and allow dealers, institutions and traders to feel more secure and protected in what they are doing. Therefore, Wematch is working to address the potential risks one-by-one by offering a digitised, STP, integrated and interoperable workflow.

"We tried to look into conduct and compliance risks by making sure that the platforms that we are releasing into the market are click-based," explains Raccat. "One of the important and key topics at Wematch is that there is no chat option, we are protecting the traders and the users from being exposed to writing something which could be used against them."

He adds: "We are very aware of those risks and any human behaviour is systematically turned into a click at Wematch, which allows us to respect the who, when, what — which means that each time the user is using Wematch there is a click, and each click triggers a log where we know who did what and at what time."

This is extremely significant from a compliance and regulatory standpoint to ensure that each action is time-stamped and that any trade, which has been facilitated by the platform, can be reconstructed from the moment the interest has been input until the moment the confirmation is sent.

Wematch seeks to protect its clients from market movements and extreme volatility, which has been a focus point for the financial world for the past few years. The financial technology company is plugging auto-protect features in the majority of its products, where clients can ensure they are protected in case the market is moving against them. Raccat indicates: "We went through the periods of turbulent market conditions by keeping the pressure on our roadmap, developments, hires, and on structuring the company. The markets have been extremely volatile, we have been moving away from the COVID pandemic and into a geopolitical crisis with a war — so it is very hectic out there."

Charging forward with a community-based approach, Raccat plans to roll out Wematch's securities financing product to a maximum number of users, dealers and financial institutions in the marketplace. "As far as we are concerned, we see our numbers picking up again — every month is a record month in terms of activity and revenue," says Raccat.

Users of Wematch are focusing on managing the multiple crises impacting the world and financial markets. Raccat continues: "An impact for them is to make sure that if the revenues are impacted, then they have the right restrictions or policy on the expenses. We are offering solutions which can accompany the enhancement, or the replacement, of internal tools or solutions."

Going global

Wematch — which develops web-based solutions to deliver automated matching, negotiation and lifecycle management for transactions including securities lending and borrowing, total return swaps, interest rate derivatives and equity derivatives — has been beefing out its teams in the US since securing a further US$8.5 million in a second series B funding round in December 2021. Its CEO Joseph Seroussi

"We see that some of the agent lenders, who historically have been heavily involved in sec lending, are looking at swaps and diversifying their products suite into synthetic"

has recently moved from Tel Aviv to New York in an effort to aid the firm's mandate to accelerate the Wematch footprint in the US, and to create the structure in America, which is already present in Europe.

The series B funding was led by the corporate venture capital arm of Deutsche Börse DB1 in October 2021. J.P. Morgan, Augmentum Fintech and Illuminate Financial were among the other companies to have invested in Wematch in the first close of the funding round. By the time the second round closed in December 2021, several companies had also become investors, including Barclays, CE Innovation Capita and Societe Generale. The funding rounds accumulated US$28 million in total.

Wematch indicates that these investors support the company's vision to help the capital market to adopt further digital solutions across markets globally and to apply this technology to internal and client-facing solutions.

According to Raccat, Wematch has appointed its first sales manager in APAC, based in Singapore. However, the push toward an expansion in APAC has not been smooth sailing owing to the recent financial climate. Current restrictions have slowed Wematch's efforts to sit down with its users and roll out its offers in the region. Despite the difficulties, Wematch is expected to go fully global over the next year.

Among its expansion, the securities financing products suite and product scope at Wematch remains a priority for the company. Raccat says: "We are coming to a point where our workflow and optimisation tools on equity swaps are becoming pretty mature, with a sizeable percentage of the market now using our solutions."

He continues: "We are upgrading the product on a very regular basis, but it is moving to a more mature status now in Europe. We have been rolling out the product in the US over the past 18 months, and we are rolling it out in APAC as we speak. We aim to produce a global offer on our equity swap product suite."

The hard-to-borrow platform at Wematch has been live for the last six months in Europe, and is looking promising in terms of the flows the firm is seeing and the activity that is going through the platform. Wematch is about to release its minimum viable product in the US, and has already received queries and questions about it in APAC. The plan for securities lending is to produce a global footprint in Wematch products by the first quarter of next year.

In regards to the Wematch equity derivatives franchise, the firm is analysing regulation and observing prices in the equity derivatives markets, specifically, the Fundamental Review of the Trading Book (FRTB) regulation. "We are offering our clients the ability to have an observable marketplace, using API connectivities with the platform, allowing them to benefit from better capital treatment when they trade OTC products," concludes Raccat.

Blurred lines

In predicting the future of the digital space, Raccat anticipates that a number of emerging trends will continue to develop. For example, the Wematch co-founder identifies a demand to improve interoperability between multiple products in the securities financing space. The ability to navigate between over-the-counter (OTC) and listed, and the ability to navigate between physical and synthetic — where the lines are becoming more and more blurred — is going to increase.

"We see that some of the agent lenders, who historically have been heavily involved in sec lending, are looking at swaps at the moment and diversifying their products suite into synthetic," Raccat states.

"I believe it is a great area of opportunity for us to add new client segments in our current portfolio. The more we progress, the more the clients are going to be asking for sophisticated solutions around helping them optimise their negotiation protocols. Obviously, interoperability and STP processes are extremely important," he indicates. With this in mind, Wematch will continue its work to offer a front-to-back solution for its product set.

From a product standpoint, tools which allow banks to manage UCITs concentration limits, collateral inefficiencies, and environmental, social and governance (ESG) baskets on an automated basis, are becoming "extremely powerful" and attracting growing demand. Wematch has noticed this trend within its own equity swap product, which enables clients and banks to manage the complexity of the business in the exchange-traded fund synthetic space.

Moving on to its next stage of operation, Raccat plans to leverage its market solutions to facilitate exchanges and optimisation of collateral between multiple desks and regions within the same bank. Wematch has been rolling out a framework to support the interactions between traders, in addition to the interactions between sales and traders to facilitate relationships with end clients. Raccat believes this solution will become an attractive structure to customers as he anticipates strong interest from clients in the future.

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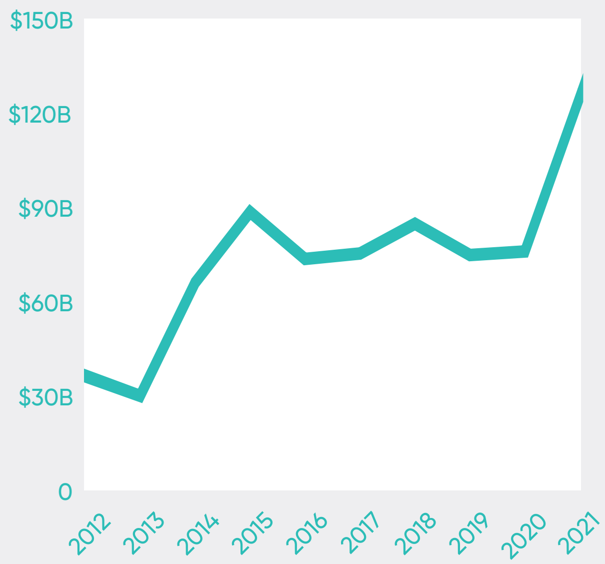
HEDGE LOAN PROGRAM MEMBERS

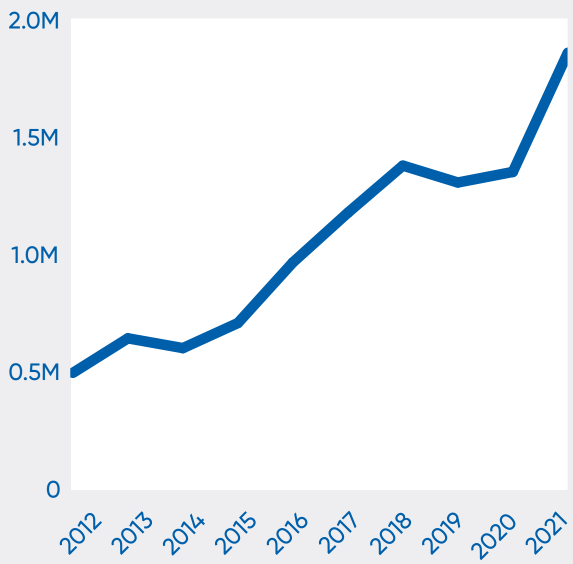
125B

AVERAGE DAILY LOAN VALUE AT YEAR END 2021

Annual Notional Value of Loans



Annual New Loan Transactions



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What does new technology mean for securities lending?

Nancy Steiker, senior director, FIS Securities, Finance and Collateral, explores how technology innovation will reshape the settlement and lifecycle management methods used to support securities lending

In recent months there has been an increased focus and conversation around what the next generation of securities lending post-trade and collateral will look like.

Basel IV regulation-driven increases in capital charges from 2025 will seek to enhance credibility in the calculation of risk-weighted assets (RWAs), improve transparency and allow for an easier comparison of banks' capital ratios. This could substantially increase bank costs, which will then be passed on to the beneficial owners. Meanwhile, rising interest rates, quantitative tightening, inflationary pressures, Uncleared Margin Rules (UMR) and other macroeconomic factors will further drive industry participants to protect margins.

Against this backdrop, there is a growing demand for solutions that can address the inefficiencies and exaggerated costs that encumber the market in its current state. So where will the market efficiencies be created? For some, the answer lies in the new technology that is powering the growth in digital assets. From blockchains to smart contracts, digital assets and tokenisation, how could the latest developments in technology have a positive impact on the securities lending market as we know it today?

Blockchain

Blockchains are a type of digital ledger technology (DLT) that consists of a growing list of records called blocks, that are securely linked together using cryptography and are used to record and timestamp transactions and balances. Crucially for capital markets, blockchains can be private and secured. That means they are centrally controlled, with access limited to authorised participants who can only view data that is pertinent to them and to their role.

This addresses the security and know-your-customer (KYC) limitations of public blockchains — but what other advantages does a decentralised and private blockchain have over a traditional centralised database? One key benefit is that if your trading activity sits on a blockchain, you have a central and immutable golden source of all your activity accessible in real-time — which means you only have one reconciliation point, rather than having to reconcile and resolve differences with all your bilateral counterparties.

Where blockchains really come into their own, however, is with what you can do with digital assets and smart contracts.

Digital assets and smart contracts

Originally created by the crypto industry, digital assets come in many forms aside from well-known crypto currencies. Likewise, they have some notable benefits outside of that model.

A digital asset, simply put, is an asset that is stored digitally, has a unique identifier, and can be used to identify value. In securities finance, this may be a digital token representing a ringfenced and immobilised holding of a traditional asset. Or it can be a digitally native asset — in other words, a security issued only on a blockchain.

When a digital asset is traded on a blockchain, there does not need to be a physical movement of that asset — unlike traditional assets, which move from one custodian to another. With digital assets, the movement is merely represented by adjustments in the ledger which are created by blocks on a chain, and this can happen near instantaneously. The benefits here are tangible and significant: lower custody fees and movement fees; a reduction in settlement risk, as the digital assets must be in place in order to trade them; and the removal of a lot of post-trade settlement and reconciliation activities.

The whole transaction is represented in a smart contract: an executable programme that contains the terms of the trade and automates all the activity related to that trade, once agreed by both parties. As well as the operational efficiencies and risk reduction benefits, that settlement certainty and speed can increase the velocity of collateral, enable intra-day financing, turbocharge collateral optimisation, and cut down overnight capital requirements.

Conclusions on the impact to the securities lending market, DLT and smart contracts will reduce the friction, costs and risk associated with the traditional securities market and regulatory risks. Without the need for a down period, market trading cycles could theoretically operate 24 hours a day, seven days a week and 365 days a year, reducing the barrier to entry and attracting more liquidity into the markets. This, in turn, would inevitably lead to changes in market behaviour for lenders, borrowers and custodians, as well as for the current exchange models.

The industry is still developing and will need to build new technology infrastructure, which will take time and require robust testing, before the current model evolves to support all digital and traditional assets. Looking further ahead, while the underlying reason behind securities lending activity will not change, the settlement and lifecycle management methods used for these assets certainly will. ■

Latest industry appointments at State Street, FIS and Morgan Stanley

State Street Bank International has appointed Christian Schuetze as managing director and head of financing solutions Europe.

Schuetze brings more than 20 years of experience in the financial sector to the role, where he will drive business growth as State Street embarks on the next step in the Continental European growth strategy of Global Markets — the firm's securities business.

Schuetze joins State Street from Societe Generale Corporate and Investment Banking, where he was previously head of cross-asset secured financing sales for Germany and Austria.

While in this role, Schuetze was responsible for sales of securities finance products in the Deutschland, Austria and Confoederatio Helvetica (DACH) region and the Nordics.

He left the firm in May 2022 after an eight-year term, and enjoyed a period of gardening leave prior to entering his current role at State Street.

Previously, Schuetze led the sales of equity derivatives and equity finance offerings during his term at Royal Bank of Scotland from 2010 to 2013, and at BNP Paribas between 2007 and 2010 in London and Frankfurt.

Earlier in his career, Schuetze worked within equity derivatives sales and market making at WestLB.

John Irwin has departed from Northern Trust after almost 30 years at the firm, according to industry sources.

The former global head of trading for securities lending joined Northern Trust's London office in 1994.

At the firm, Irwin held a number of senior positions including head of international trading in EMEA and APAC.

S&P Global Market Intelligence has appointed Dean Bruyns as head of pre-sales within the firm's Global Regulatory Reporting Solutions team.

Based in London, Bruyns will report to executive director of product management at S&P Global Market Intelligence Global Regulatory Reporting Solutions, Ayelet Har.

Michael Bondswell leaves FIS

Michael Bondswell has departed from FIS as a senior sales executive after almost three years at the firm.

Bondswell pursues other opportunities as he joins New York-based stock exchange Nasdaq as head of sales, EMEA for the firm's Nasdaq Risk Platform.

The platform consists of comprehensive risk engines that provide a real-time exchange margin, market risk, counterparty risks, and profit and loss service.

Previously, Bondswell was a senior director of pre-sales at Broadridge from 2015 to 2020.

Earlier in his career, Bondswell held positions at Mitsubishi UFJ Securities, LCH. Clearnet and MF Global.

Bruyns joins the firm from Broadridge, where he served as senior director of product management between 2017 and 2022.

Prior to this, Bruyns was a broker in securities finance and delta one at US broker-dealer Louis Capital Markets. Previously, he was also employed as a securities finance trader at MF Global from 2001 to 2014.

Commenting on the appointment, Har says: "We are very excited to welcome Dean Bruyns to our Global Regulatory Reporting Solutions team. Dean brings with him over 15 years of financial industry experience, extensive regulatory reporting knowledge and a deep understanding of how to provide customers with the regulatory reporting solutions that will answer their needs.

"Dean will work to enhance the customer experience from the initial touch point with the customer through to the handover to the onboarding team so that our customers can continue to enjoy a seamless, quick and professional reporting experience."

Morgan Stanley has appointed Denise Hillier within its Financing and Collateral Operations team for the firm's Institutional Securities Group (ISG) product.

Hillier will be based in Glasgow and returns to Morgan Stanley after eight years, having previously held a two-year term with the company performing fund accounting for hedge fund clients.

Hillier joins Morgan Stanley from BlackRock, where she was previously a relationship manager from August 2021 to August 2022.

Prior to this, Hillier was a financial analyst at M&G plc and was responsible for data reporting for business assets between 2018 and 2021.

Hillier previously held positions at J.P. Morgan, HSBC and BNY Mellon during her career in financial services.

The International Capital Market Association (ICMA) has appointed Georgina Jarratt as managing director, head of fintech and digitalisation and as a new member of the executive committee.

Jarrett has been with HSBC since 2005, where she has held a number of roles including global programme director, prime services, global head of business transformation, global banking and markets.

She was most recently head of transformation, digital and innovation, private banking.

Prior to HSBC, Jarratt was a senior manager at IT service Accenture.

Commenting on Jarratt's appointment, Bryan Pascoe, chief executive of ICMA, says: "I am delighted to be welcoming Georgina who brings a huge breadth of experience across transformation, digitalisation and leadership.

"Georgina will be instrumental in advancing our work in fintech and digitalisation in a broader and more strategic way to bring further efficiency, standardisation and subsequently, automation to the capital markets. Her extensive experience in executive leadership and people management will also help drive forward our diversity and inclusion agenda."

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