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Applying AI to drive collateral management automation

CACEIS to acquire RBC's European asset servicing business

CACEIS has announced that it will buy the Royal Bank of Canada's (RBC's) European asset servicing business and its related Malaysian service centre.

The two banks have signed a Memorandum of Understanding (MoU) through which CACEIS will purchase RBC's European securities services book of business which includes custody and global custody FX, securities lending, fund administration and transfer agency, along with middle-office services.

The deal, which is subject to standard regulatory and antitrust approvals, is expected to be finalised by the end of Q3 2023. This will also require prior consultation within the appropriate works councils at CACEIS.

By agreement with RBC, CACEIS indicated that it does not wish to disclose the transaction price. However, a CACEIS spokesperson told SFT that CACEIS would be able to absorb the transaction without capital increase.

The MoU relates to CACEIS' acquisition of a European asset servicing business from Toronto-based RBC that includes approximately €1.2 trillion in assets under administration through its fund services business and approximately €0.5 trillion in assets under custody.

With this acquisition, CACEIS will expand its AUC to approximately €4.8 trillion and AuA to approximately €3.5 trillion.

This builds on the French bank's purchase of KAS Bank's securities services business, which was announced in July 2019 and completed in May 2021.

In December 2019, CACEIS completed the acquisition of Santander Securities Services (S3) in Spain and 49.99 per cent of S3's operations in Latin America, specifically in Brazil, Colombia and Mexico.

Inside this issue

State Street to open new office in South America

State Street is to open a new office in Chile to help the firm serve and support institutional clients in South America, with a focus on securities lending, custody and fund administration.

The firm has appointed Alberto Menendez to lead the Chile office and to serve as sales representative for Chile and Peru.

Menendez is based in Chile and will report to Maria Ximena Vasquez Barbosa, regional sales head for Latin America and Caribbean excluding Brazil.

Menendez joins State Street from Credicorp Capital Chile, where he served as distribution manager, overseeing the distribution of first-class mutual funds, exchange-traded funds (ETFs) and alternative asset managers, including State Street's ETFs for Chile, Colombia and Peru.

Prior to that, he held leadership positions at AFP Provida, Celfin and AFP ING of Colombia.

The launch of the Chile office marks an important milestone as the firm builds on its ongoing expansion of client capabilities in the region, says State Street.

The launch of its Chile office comes a year after State Street's Brazilian bank began offering foreign exchange capabilities and sales operations.

Marcia Rothschild, head of Latin America and the Caribbean at State Street, says: "We are proud of our growth in Latin America, which continues to be a critical market for the global investment community. With our new office, State Street is even better positioned to serve our clients, globally and locally, as they navigate the evolving challenges of investing in emerging markets."

Menendez adds: "State Street has brought market leading solutions and unprecedented scale to the region, and the opportunity ahead is only growing as we continue to expand our capabilities on behalf of clients."

CACEIS to acquire RBC's European asset servicing business

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Commenting on the MoU that CACEIS has announced with RBC, CACEIS' chief executive Jean-Francois Abadie says: "This combination with RBC Investor Services helps us to consolidate our position as a leading

European player in asset servicing. We are enhancing our leadership across a range of services, increasing our position in a number of key markets, growing relationships with global asset managers, and increasing our capabilities and scale.

“Additionally, the staff from RBC Investor Services will bring their expert knowledge of the servicing needs of international investor clients and distribution services.”

Francis Jackson, CEO of RBC Investor Services, comments: “We are proud of the business that we have built in Europe, and are excited for CACEIS to continue to deepen relationships with our clients. This is an opportunity for our European clients to enjoy the combined scale of RBC Investor Services' European business and Malaysia centre of excellence and CACEIS' global footprint, while allowing us to focus on our Canadian asset services franchise in our home market."

Jackson continues: “CACEIS has a track record of growth. This is an important milestone as they strengthen their position as a leading European asset servicer. We are confident this proposed transaction will bring benefits to our clients and our employees.”

Provable Markets facilitates first transaction on DTCC’s SFT Clearing Service

Provable Markets has confirmed the completion of the first securities lending transaction cleared through the Depository Trust and Clearing Corporation’s (DTCC’s) new Securities Finance Transaction (SFT) Clearing Service.

The trade was executed through the firm’s SEC registered alternative trading system (ATS) Aurora and centrally cleared and settled via the SFT Clearing Service on 6 October.

The transaction utilised Provable Market’s connectivity and integration from the FIS Securities Lending Processing Platform, with positions updated in the Loanet Books & Records systems in close to real time.

According to Provable Markets, Aurora is one of two Approved SFT Submitters for the DTCC’s new service, and the only regulated access point.

Aurora provides a full suite of functionality for users — from traditional workflows to order book style functionality — and aims to

bring central order book style trading to the securities lending market.

DTCC announced today that its subsidiary, the National Securities Clearing Corporation (NSCC), went live with the new Clearing Service. This service supports the central clearing of SFTs between NSCC full-service members, as well as the central clearing of clients' SFTs intermediated by sponsoring members or agent clearing members.

Commenting on the announcement, Matthew Cohen, CEO of Provable Markets, says: "We are beyond ecstatic to have facilitated the first ever transaction cleared through the DTCC's SFT Clearing Service.

"This was only made possible through tremendous work by the entire Provable team and, what we hope is, the establishment of a new standard of cooperation, coordination, and teamwork among market infrastructure players to leverage relative strengths for the ultimate benefit of our shared customers."

Cohen indicates that the company will remain "hyper focused" in elevating the securities finance market structure, working in concert with its respective peers in all facets. Provable Markets will continue to expand this offering by "furthering our commitment to being an open, independent and client driven part of the broader ecosystem".

Laura Klimpel, DTCC general manager of Fixed Income Clearing Corporation (FICC) and head of SIFMU business development, adds: "Centrally clearing SFTs has the potential to transform the securities lending market for the better, with benefits including new borrowing and lending opportunities for a wide range of counterparties, balance sheet and capital optimisation opportunities, reduced operational burdens such as Agent Lender Disclosure (ALD), and lowered systemic risk."

Securities lending market grows 12% YoY in Q3

The securities lending market generated US$2.63 billion in Q3 2022, representing a 12 per cent increase from Q3 2021, according to Nancy Allen, global head of data and analytics at EquiLend.

Noted in EquiLend's 10th edition of their quarterly report, The Purple, the Q3 performance brings the year-to-date revenue for 2022 to US$7.45 billion, an 8 per cent increase from 2021.

North American equities played a significant role in the increase, with revenue from corporate and government debt for Q3 2022 rising YoY by 89 per cent and 16 per cent, respectively.

The report highlighted that the securities lending industry generated US$1.3 billion in revenues in Q3 2022 for North American equities.

Equities lending revenues in EMEA and Asia fell relative to Q3 2021 by approximately 20 per cent, with new regulations casting a large shadow over Asia's Q4 outlook, according to the report.

Citi to launch 24/7 USD clearing

Citi Treasury and Trade Solutions has announced its intention to launch round-the-clock payments clearing to its institutional clients.

This 24/7 service is designed to enable Citi's financial institution customers to make USD payments 24 hours per day, 7 days per week including public holidays.

Citi indicates that this will help support clients' payment innovation through a number of key use cases. This will include meeting collateral requirements on weekends and public holidays, processing late-hour payments, supporting interbranch funding and improving clearing access for markets outside of US working days, for example in the Middle East region.

Citi's global co-head of payments and receivables for its Treasury and Trade Solutions division Debopama Sen says: "At

Citi, we approach everything with a client-first philosophy, focusing on both meeting our clients' needs now and helping them prepare for the future.

"This means thinking about how clients could use our solutions at scale, with minimal investment on their part. 24/7 Clearing exemplifies this approach, working across clients' channels of choice starting with SWIFT, and soon via APIs."

REGIS-TR partners with Spain's Cecabank

REGIS-TR has partnered with Spanish wholesale bank Cecabank in an effort to simplify and ease reporting compliance processes for its clients.

Cecabank has previously worked with REGIS-TR as a long-term provider of regulatory solutions in the Spanish market.

Cecabank specialises in securities services, offering reporting solutions to Spanish financial institutions, supporting them through EMIR, UK EMIR and SFTR reporting.

Nick Bruce, head of business development at REGIS-TR, comments: "We have been working closely with the team at Cecabank for a long time and we are delighted to officially partner with them. Our wide range of partners from industry-leading organisations is allowing our clients to benefit from operational advantages and greater levels of efficiency."

Massimo Salerno, director of the treasury, risk and reporting services at Cecabank, comments: "Partnering with REGIS-TR will help our regulatory reporting as a service clients in the Iberian Peninsula to gain efficiency and comply with the EMIR, SFTR and EMIR REFIT requirements in a smooth and effective manner.

"The partnership will mark a new milestone in the long-established relationship between Cecabank ecosystem and REGIS-TR, leveraging previous EMIR and SFTR's experiences ahead of the EMIR REFIT implementation."

ICMA publishes guide to domestic repo market in China

The International Capital Markets Association (ICMA) has released a guide to China's repo market, representing the fifth in its series of market practice guides on domestic repo markets in Asia.

This volume provides a detailed introduction to repo market activities on the Chinese mainland, including analysis of the evolution of the market, products and trading activities, market infrastructure, the interbank market and exchange-traded repo, along with a review of the regulatory and legal framework and its ongoing development.

Authored by Richard Comotto, senior consultant to the ICMA's European Repo and Collateral Council and longstanding repo market expert, this contribution follows on the back of domestic repo market guides for Japan, Indonesia, Vietnam and the Philippines which were released earlier this year.

The volume notes that China has a 30-year history of repo trading, with activity building from informal transactions conducted on diverse local exchanges in the early 1990s to a market today that generates almost US$220 trillion annually in turnover, equivalent to an average daily turnover of US$850 billion or CNY 5.6 trillion.

Given the scale of the repo market in China, Comotto advises that it should be compared with other large repo markets globally, rather than its smaller Asian regional counterparts. The repo market is now the largest fixed income and money market in China, with repo turnover during 2021 of CNY 1395.4 trillion compared to CNY 214.5 trillion cash trading in bonds and CNY 118.8 trillion in unsecured interbank lending.

The guide concludes that although the repo market is the most efficient and liquid financial market in China, the underlying cash market for securities deployed as collateral is relatively illiquid, owing to its very low turnover, and collateral illiquidity is subsequently a systemic risk in this market.

Although the one-day duration of most repo transactions does mitigate this liquidity risk to investors, it does present a significant funding risk for borrowers. Extensive use of short-term wholesale funding to generate leverage and to manage maturity transformation does expose the repo market to risk of sudden deleveraging.

A further source of systemic risk in repo markets arises because the large majority of repo trades in China are pledged repos, which are effectively secured loans rather than true repo.

In the event of a counterparty default, Comotto notes that such repos would fall within the scope of the statutory insolvency regime and Chinese bankruptcy law, which is little tested, may delay or block access to collateral.

More broadly, pledged repo does little to encourage liquidity in the underlying securities market because cash lenders are not able to re-use pledged collateral, for example to cover short positions. The use of collateral pledge also limits use of close-out netting.

The repo market in China is divided across the Interbank Market and trading on two stock exchanges, the Shanghai Stock Exchange and Shenzhen Stock Exchange. The guide provides a useful overview of the operation of each market segment and the products and trading activities that these support.

In theory, Comotto notes, the Interbank Market trades on the China Foreign Exchange Trading System (CFETS), which supports trading and data services for repo, cash bonds, foreign exchange and OTC derivatives.

In reality, repo market participants commonly trade bilaterally off CFETS, using voice or chat, with CFETS used to report the transaction in keeping with the regulatory obligation in the Chinese market for OTC transactions.

The author highlights the important role that the Interbank Market has played since its inception in 1997 in supporting the central bank's move towards an interest rate-based monetary policy framework. This has facilitated the People's Bank of China's move from quantitative credit targets and direct interest rate guidance towards a monetary framework guided by daily open market intervention, reserve averaging, standing facilities and strategic policy signals.

Comotto notes that an efficient repo market provides a secure medium for open market operations, while repo rates provide an accurate indicator of the cost of wholesale funding, providing an effective benchmark for pricing risk and short-term financial assets.

Women in Securities Finance celebrates five-year anniversary

The Women in Securities Finance network came together with the industry to celebrate its five-year anniversary in a Market Open Ceremony hosted by the London Stock Exchange Group (LSEG).

To mark this milestone for the network, the group's London Chapter gathered at Paternoster Square in London with its co-leaders Harpreet Bains, global head of product for agency securities lending at J.P. Morgan, and Ina Budh-Raja, EMEA head of product and strategy securities finance and markets ESG at BNY Mellon.

Speaking to SFT, the co-leaders of the London Chapter highlight how the significant milestone serves to not only galvanise and give momentum to all the combined effort and energy being channelled into Women in Securities Finance, but will help to propel the discussions and solutions that will drive a more diverse, equitable and inclusive workplace for the future.

The women dedicate the success of the network to the ongoing encouragement and contributions from across the group's membership, including its male allies, "all of whom have enabled the network to deliver on its mission".

Creating a community to foster connections and promote the advancement of women in the securities finance industry, the Women in Securities Finance group has made its mark in the industry since its emergence in 2018.

The group has expanded its reach through its Boston, Chicago, Toronto, New York and London Chapters, reaching 1000 members, and has made headlines with its achievements over the years.

The London Chapter leaders announced their collaboration with the Bank of England in April 2021, where they aided the bank in promoting new best practice standards in the UK Money Markets Code (MMC) to enhance diversity, equity and inclusion.

In addition, the group has participated in conferences around the globe, pushing discussions on diversity with market participants, including at the recent Risk Management Association's 37th Securities Finance & Collateral Management Conference in Miami.

Securities Finance Times recognised the group's efforts at its Industry Excellence Awards in June with the Diversity and Inclusion Initiative of the Year award for demonstrating a commitment to equality and inclusion on a sustainable basis.

Commenting on the milestone, Budh-Raja says: "If we want to drive change and reap the broader benefits that a diverse and inclusive financial services landscape can bring, then women really need to support each other, speak up, be brave and ensure that honest conversations are had."

Bains adds: "Continuing to look for opportunities to lower the ladder down to help others climb up when you can, recognising that not every woman is starting from the same rung, is crucial. Meaningful progress can only come about through a collective effort."

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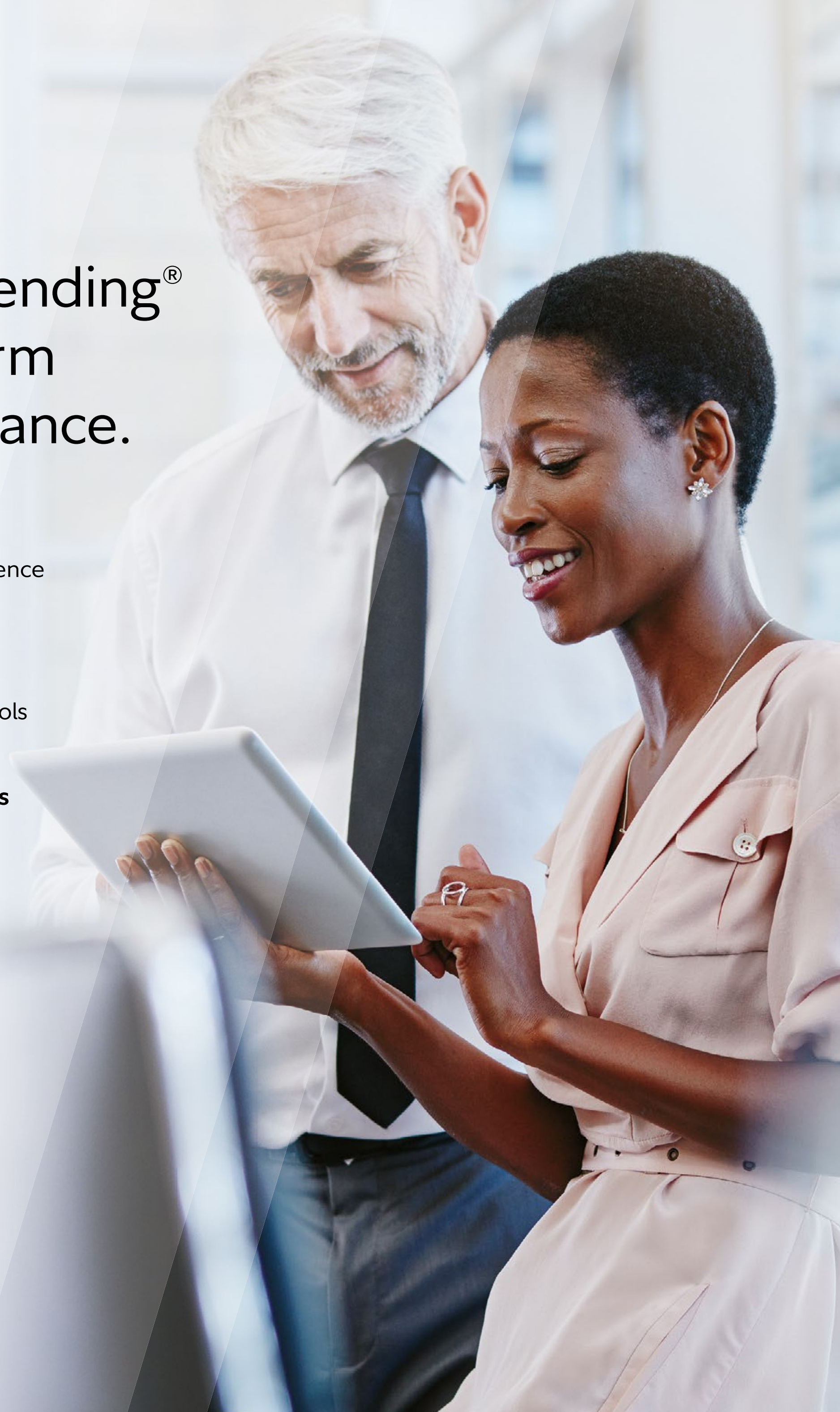

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Clearstream and Intelli-Select target Q1 23 for collateral management automation release

Clearstream's Marton Szigeti and Intelli-Select's Bart Coppens speak to Bob Currie in advance of the launch of OSCAR, their AI-based collateral eligibility negotiation and screening tool

Clearstream and Intelli-Select, a Belgium-based fintech, will deliver enhancements to collateral eligibility negotiation and collateral screening with the launch of a new solution that is targeted for release early in the new year.

This collateral tool, named Own Selection Criteria with Automated Reasoning (OSCAR), utilises Intelli-Select's software, applying artificial intelligence strategies to evaluate collateral eligibility profiles when working with collateral baskets.

This will accelerate the time required for users to develop and negotiate individual collateral baskets through use of AI techniques, including knowledge representation and reasoning (KRR), machine learning and structured natural language processing (NLP). The AI methodology has been developed by Intelli-Select in collaboration with its academic partners at KU Leuven.

Clearstream, the Deutsche Börse-owned post-trade entity, indicates that OSCAR will be the first collateral management tool available in the market that applies AI techniques in this way to create, negotiate and execute baskets of collateral.

As reported in Securities Finance Times in June, OSCAR is designed to streamline these activities through use of AI, enabling users to define their own intelligent eligibility criteria while screening through an automated process for inconsistencies. Clearstream reports that the tool will also facilitate interoperability with different counterparts, assisting negotiation, reconciliation and collaboration.

Marton Szigeti, Clearstream's head of banking, funding and financing, notes that one of the fundamental workflow challenges in collateral management is to set in place collateral schedules that a firm can exchange with its counterparties. Historically, this has been a heavily paper-based exercise that has been relatively inefficient operationally and can involve significant operational and legal cost.

To create and manage collateral baskets, users have traditionally needed to compare and translate different collateral profiles manually across multiple triparty agents, commonly utilising data held in spreadsheets and flat files. These collateral profiles need to be regularly updated in accordance with evolving business requirements and regulatory changes that prompt users to refine their use of collateral.

Clearstream has worked with Intelli-Select to create OSCAR as a means to streamline this process for the market. This creates a digital version of a collateral schedule which can be agreed with trade counterparties through a smart online interface. This enables users to create collateral schedules simply — through typing information into the online portal that is then read and digitised by OSCAR using natural language processing — enabling the user to match these collateral eligibility criteria electronically with counterparties and to trade within a matter of minutes, when this process would previously have taken several hours or days.

"This solution extends flexibility to build and amend collateral schedules quickly and simply," says Szigeti. "If a user wishes to switch an asset out of a series of collateral baskets, this can be executed using OSCAR without pages of physical documentation and without an elongated legal approvals process."

The testing process is now at an advanced stage and OSCAR is likely to be released fully to users of Clearstream's collateral services in the early months of 2023. This will be implemented through a phased roll out, with basket set up and negotiation to be made available through an initial release in Q1 2023, followed by a second release phase in Q2 2023 that will add eligibility checking prior to further upgrades to the service.

Intelli-Select co-founder and CEO Bart Coppens indicates that OSCAR is built on the latest research in AI techniques, enabling the creation of sophisticated insights with full explainability of the reasoning process, yet based on intuitive natural language inputs. "The partnership with Clearstream gives us the opportunity to put these advanced techniques to work, solving real-world issues, in this case on collateral — but this is just the start as we have identified and are working on many more [potential applications of this model]," says Coppens.

Knowledge representation

In utilising Intelli-Select solutions, OSCAR applies a number of AI techniques including knowledge representation and reasoning and NLP. In its simplest terms, KRR is a field of AI dedicated to representing information about the world in a form that a computer system can

"One of the fundamental workflow challenges in collateral management is to set in place collateral schedules that a firm can exchange with its counterparties"

Marton Szigeti
Clearstream

apply to solve complex tasks such as diagnosing a medical condition or communicating a dialogue in a natural language. By applying KRR, an intelligent machine (or 'intelligent agent') is able to learn from its knowledge and experiences and to take intelligent actions that build on its existing pool of knowledge, such that there is learning and improvement at each stage in the KRR model's evolution.

This is supported in the OSCAR product by natural language processing, which enables users to enter and amend their collateral schedules using text-based instructions, typically typed into Clearstream's online client portal. Through this facility, the solution will extract the user's instructions from typed English keywords and convert this into machine-readable structured language which aligns with the underlying application data model, yet the text remains close enough to the English language to be used in actual legal agreements.

Providing an intuitive element, the solution will advise what haircut should be applied to a collateral asset, for example, in line with the user's specified risk profile. This will also screen for inconsistencies and suggest alternatives in line with the user's collateral preferences.

"In our experience, a collateral schedule delivered through an excel file, a flat file for example, could require many thousands of if-else statements to represent electronically using traditional computing logic," explains Coppens.

Through applying KRR, the platform is able to identify the user's collateral eligibility criteria and exclusions through applying automated reasoning, dramatically improving the speed and efficiency of creating and applying collateral schedules. By indicating its collateral preferences through keywords entered into the user interface, OSCAR will suggest eligible assets from the user's inventory that may be used to build and negotiate collateral baskets.

To make the model scalable, Intelli-Select has applied NLP and natural language generation (NLG) to accommodate natural language input and output, enabling the solution to interface with multiple collateral management service providers that may each employ a distinct data model and apply slightly different formats for data communication and reporting.

A parallel strength of this platform is that it applies explainable AI, providing a full audit trail and chain of explanation regarding why a collateral basket will be eligible or ineligible for a specified counterparty.

"The explainability element is important," notes Coppens. "OSCAR will document the reasoning behind each decision, explaining each step of the KRR reasoning process even when it took many steps to get there."

Intelli-Select presented initial ideas to Clearstream around two years ago and, as the thinking matured, the OSCAR project rolled into action, advancing through a proof of concept, the creation of a minimum viable product and through extensive testing with its early adopter community to bring the programme to its current state of evolution.

In doing so, Intelli-Select has worked closely with data science and AI specialists at KU Leuven, which has supported a research group specialising in artificial intelligence for more than four decades and has teams with expert knowledge in KRR applications.

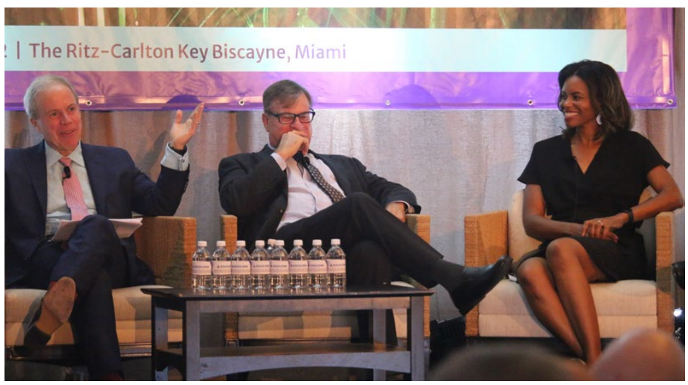
From this point, the project stakeholders expect to roll out the project relatively quickly. "Many users are already using Clearstream for settlement and custody," explains Coppens. "The platform is highly intuitive, dictating that there is minimal cultural adaptation required on the users' side to integrate OSCAR into its workflow and working procedures. And this is already supported by user documentation, explanatory video and FAQs."

Clearstream's Szigeti reinforces this point. "Our intention is to move our clients promptly onto the OSCAR platform, recognising the value this can deliver in providing faster, cheaper and more efficient collateral management," he says. "For clients wishing to trade with a new counterparty over a triparty platform, and to set in place new collateral schedules, it is important to be able to do this on an intraday basis. They do not wish to be waiting days, or even weeks, to get this done. Until now, it has not been possible to move this quickly in setting up with new counterparties, and establishing new collateral schedules, in a legacy environment."

While the partnership with Clearstream has focused on collateral selection, Intelli-Select has developed a KRR-driven model that could be applied to a much wider set of potential use cases. One example is the company's Fund Analyser solution, which screens the holdings that an asset manager has within a fund product to validate whether this aligns with an investor's sustainable investment objectives and environmental, social and governance (ESG) criteria. Through its intelligent capability, this tool offers the ability to suggest fund products that align most effectively with an investor's specified ESG profile.

Finding the silver lining

Entering the fourth quarter, industry leaders reflect on the current state of the securities lending industry as it continues to battle economic and geopolitical pressures. From how to retain top talent to the possibilities of buy versus build, participants provide words of wisdom for the industry. Carmella Haswell reports



Securities lending is a good hedge to volatility and declining markets. But despite the pressures of rampant inflation, volatility and a potential recession, the securities lending industry is assured that these challenges present opportunity.

In tackling the “doom and gloom” landscape as geopolitical struggles persist, market participants set their priorities straight. Aperture Investors’ COO James O’Connor says the firm is focused on the asset liability matching environment which the industry is dealing with.

Over the past 10 to 15 years, O'Connor has seen the growth of the private credit space — a signpost he is watching out for. Given the velocity of the rate rises, the market has not seen this translate into the mark-to-market of that asset class.

He reveals: "What you are seeing in the UK right now is clearly another signpost. When you see investment grade credit being sold off more than high yield, that does not make sense. Why does one sell the higher grade credit instead of lower grade credit? Because when you need a lot of cash quickly, you sell what can generate the most amount of cash. Keep watching and stay alert for the signposts. Stay close to your risk management team right now. This is where companies basically go bankrupt, it is in the securities finance industry. Liquidity is the killer, not performance."

The industry can expect to face periodic bouts of illiquidity. Some firms have been preparing their clients for the possibility, trying to help them immunise their portfolios to weather the air pockets by being able to survive a couple of days without liquidity in the market.

According to the Structural Changes to Cash Reinvestment panel at the Risk Management Association's 37th Securities Finance & Collateral Management Conference, it appears that, from a broader treasury perspective, the market is fragile and liquidity is thin. Panellists raised the concern that the treasury market could be one shock away from experiencing pronounced air pockets.

Putting a positive spin on the current market environment, head of agency lending at Fidelity Investments Justin Aldridge says while crises and volatility are bad, this also presents opportunity. Fidelity is monitoring the situation and feels well positioned with its credit and risk expertise and the actions that it is taking. Aldridge believes that the risk-to-reward ratio remains the same, even with the volatility that is being seen in the markets.

Fidelity's plan of action is to stay the course and to continue to do what it is doing to seize opportunities that fit its business profile, wherever the firm sees them. According to Aldridge, the current market has shown that securities lending — from an income perspective for an asset managers' fund shareholders — is a good hedge to volatility and declining markets.

He adds: "If you look at the historical lending earnings of funds over the past 10 years — or going back a little further to 2008 or 2007 —

earnings were up, and again, earnings are up this year with the volatility that we are seeing in the markets."

Remaining focused

Participation in securities lending markets is on the rise, according to panellists in the Industry Leaders session at the RMA conference. EquiLend confirmed that trend, with the firm reporting a 12 per cent increase in revenue for the global securities lending market in Q3 2022, compared to Q3 2021. The market generated US$2.63 billion in revenue during Q3, with the year-to-date revenue for 2022 reaching US$7.45 billion, an 8 per cent increase from 2021.

John Templeton, global head of sales and relationship management for securities finance at BNY Mellon, says he is seeing more interest from clients continuing to join securities lending and very little feedback from clients who are looking not to participate. There are a multitude of avenues available to participate in the market and to be able to complement clients' other investment objectives. Templeton continues: "The opportunity to be able to earn the returns that are correct for your organisation, both from a risk perspective and from a return perspective, is the key."

Although the numbers are up for the industry, securities lending is proving increasingly difficult for asset managers as a result of upcoming regulation. Some asset managers are apprehensive to financially support adherence to new and cumbersome regulations that affect their participation in securities lending.

To keep up with the highs and lows of the market, the panellists pinpointed areas of focus for their firms. Fidelity's Aldridge says operational stability is paramount. The US-based financial services company is focused on the returns to its investors, making sure that the company is monitoring things in a "risk-constrained" environment. Fidelity is also focused on achieving automation of its operations and ensuring there is no unnecessary friction for lending clients.

BNY Mellon's Templeton suggested that as an industry, market participants need to reduce the amount of capital wasted, so that participants can use it on the trades that make most sense for their firms. "When we talk about the constraints of capital, I think there are two forms that come in," Templeton explains. "Number one is the capital that we want to use as a component of the trade. But there is also capital that comes up because of inefficiencies in the way that we do the daily mark-to-market process.

Every firm has a customised focus, but the panellists collectively agreed on the significance of retaining talent. A PwC survey — presented at the RMA's Women in Securities Finance panel — identifies a labour market shrinkage. It found that 1.9 million workers left the workforce post-Covid due to child care and Covid-related issues. PwC has encouraged firms to offer flexible working to help support a better work-life balance for employees, particularly women, who represent the large majority of caregivers.

As firms continue to navigate through the new working environment after the impact of the Covid-19 pandemic, companies have yet to find the happy medium with regards to flexible working. Aperture Investors' O'Connor indicates that everybody has a different perspective on what defines productivity, with most people believing that productivity means getting your job done.

O'Connor concludes: "We are building ourselves as an organisation that can be a little bit transient. We plan to introduce more business and social gatherings that bring our teams together. Our bet is that once people make regular connections, relationships will develop and we will see the collaborative things that we missed with the remote work environment."

Buy versus build

The financial services industry has evolved substantially over the past 20 years, with technology innovation sharpening competition, performance and industry processes. There is not a one-size-fits all approach when it comes to buy versus build, but the end goal is the same, to keep ahead of the curve.

Aperture Investors' O'Connor explains that unless you are a technology company, it is important to evaluate everything from a buy or build perspective. He continues: "The build versus buy is an ROI calculation, and we are just not the experts. Furthermore, unless we can generate a decent equity return on the capital, it does not make sense to build something, I am going to buy."

The wide availability of technology to aid transparency and operational efficiency, to help with collateral management, is encouraging. O'Connor says it is a positive step to see people from the industry move into solving problems for the industry, because those are the best people to create the tools.

Fidelity's Aldridge indicates that there are a lot of specialisations in the vendor space and when it comes to the core blocking and tackling there are only a handful of providers. However, competition is key to keeping the market active, people spending and products evolving.

He continues: "Our philosophy is if there is scale and efficiency in the offering, then we will buy it for the core blocking and tackling, and then as it relates to the secret sauce to customisation, we build it. If someone has something better than what we can build, then we will certainly buy it."

Goldman Sachs has historically been a build institution, but now the firm is leaning into buy, according to Nehal Udeshi, co-head of cross-asset financing at Goldman Sachs.

"Thinking about buying does make sense in a lot of different places. The oversight is absolutely necessary, the reputational risk is a big piece of many of these discussions and how we think about the impact of those can take as much time as building out some of the solutions," explains Udeshi. "But having the ability to use a third-party solution and make slight tweaks and to get those done very quickly without having to go through a long list of other internal resource priorities that are going to fall above it or below it, that has made a huge difference."

As panellists summarised their final thoughts for the industry, the underlying theme was collaboration. As an industry, despite being clients and competitors of one another, they noted that it is imperative to work together to tackle the constraints ahead.

Fidelity's Aldridge reflected on the regulatory challenges the industry has come to blows with — including the Central Securities Depositories Regulation (CSDR) and Securities Finance Transaction Regulation (SFTR) — and how daunting they were, with the move to T+1 settlement also presenting a major transition project. However, Aldridge is confident that the industry, between the service providers and vendors, will be able to overcome these challenges.

"Having been involved with the industry for as long as I have, I think the industry does a great job of collaborating," says Aperture Investors' O'Connor. "I think that everybody recognises the importance of the securities finance industry, and there are trade-offs between having operational efficiency, or operational alpha, which I think is something that people should really think about for next year."

Helping to unlock liquidity in the repo markets

Matthew Chessum, director, securities finance, S&P Global Market Intelligence, examines the transformational path of repo markets and the value that an independent data source such as S&P Global Repo Data Analytics can deliver in unlocking new asset classes, liquidity and capital

The repo market is experiencing a phase of generational transformation. As a wave of modernisation and digitisation sweeps across transaction flows, trade management and pricing, this technological revolution is improving liquidity, accessibility and efficiency for all market participants.

The advent of electronic trading platforms into this market has created numerous efficiencies and an increase in deal flows. The automation of the trade booking process allows for a greater volume of transactions, better price discovery (using request-for-quote facilities) and enhanced record keeping and compliance measures.

Despite the multitude of benefits that these changes and improvements have created, full market transparency for all participants remains elusive. The introduction of the Securities Financing Transactions Regulation (SFTR) provides a limited window into past transactions and the International Capital Markets Association (ICMA) provides regular high-quality insights into the size of the market through its quarterly reviews. However, real-time information that allows participants to benchmark several different factors relating to their repo flows at the point of trade can be challenging to acquire through market participation alone.

The value of transparency

Transparency is key to any well-functioning financial market — it unlocks trading potential, capital and assets into the financial system and engenders confidence and efficiency. This benefits all market participants and helps to make markets more competitive and analytical. To provide market participants with the level of transparency required to achieve these benefits, the S&P Global Repo Data Analytics (RDA) portal focuses on three main areas: pricing, risk management, and benchmarking and liquidity.

As interest rates continue to rise across the globe and a new era of monetary policy takes hold, financial markets are experiencing volatility that has not been seen for many years. This volatility naturally flows through to the repo market as margin calls become more erratic, hedging requirements become more important and arbitrage strategies increasingly come into play. Greater volatility means more changeable and fast-moving pricing of assets as liquidity adapts to market conditions. As an OTC market, pricing of repurchase agreements remains dependent on several factors. Having the ability to see daily pricing of repo trades, their respective volumes, and rates in relation to collateral, term, haircuts, and credit quality through the RDA portal, ensures that portfolio holdings can be optimised, returns can be enhanced and opportunity costs can be reduced.

Risk management and effective benchmarking, which are two core functions of RDA, are essential to ensure that asset owners fulfill their fiduciary responsibilities. These two functions are complementary in nature and therefore work in tandem. Through the effective benchmarking of haircuts and repo rates through the portal, assumed risk can be better understood and accounted for.

As bond yields have spiked to multi-year highs in recent weeks and demand has risen for short-end government bonds, RDA's quote screen has offered a critical window into the specials market. Yields have risen as volatility has returned and, as both governments and corporations learn to live with the impact of rapid and aggressive rate hikes, there has been significant fluctuation in repo haircuts. As the markets react at a quicker pace, when compared to internal risk models, it is essential to have a clear view into the market, and how it is adjusting for any additional risk, at the point of trade execution.

It is also essential to understand market liquidity to be able to calculate risk and pricing. Without a clear picture of supply and demand, it is very difficult to ensure that the risk-versus-reward premium is well balanced. Having the ability to see transactional flows through RDA's market overview analytics — as markets continue to respond to fiscal and monetary policy as well as geopolitical risk — permits market participants to price effectively without making assumptions based on historical information.

Given these capabilities, the S&P Global Repo Data Analytics tool provides market participants with multiple critical insights into the repo market. Once adopted, all market participants benefit from the aggregated information that is made available.

RDA offers the following core functionalities to fulfill this purpose:

- **Quote –** Quick and effective single instrument quote page tailored for repo trades, with a focus on volumes and rates by collateral, term, haircut and credit.
- **Portfolio Screening –** Providing multiple combinations of collateral screening options.
- **Benchmarking –** Collateral, term and margin benchmarking tool designed to address unique market dynamics of transactions.
- **Market Overview –** Market and collateral analysis at a sector-specific level, rather than just security level, with flexible and customisable sector buckets.
- **Access granular data —** Single customisable screen which captures every aspect of the repo programme.
- **Visualisation** of information quickly using interactive dashboards.

Transparency brings clear benefits to the whole repo market. As transparency increases in all areas, and there is an improved understanding of market functioning, more participants are encouraged to use repo products. This unlocks more capital and collateral and helps to grow the market in terms of liquidity and number of participants. Given the number of pinch points that repo books face over reporting periods, a broader range of participants that have a wider-ranging requirement for both cash and bonds should be encouraged and welcomed. Transparency is a prerequisite to grow the market in a sustainable manner.

Transparency is also key to unlocking capital into new markets. Removing the unknowns and coalescing around market standards in new jurisdictions helps to grow both liquidity and supply. All participants should therefore encourage the use of benchmarking services to help to remove some of these barriers to entry.

The RDA tool currently reports on US$1.8 trillion of repo volumes and more than 15,000 instruments. With this level of insight and market intelligence, participants can improve their repo book performance through effective benchmarking and the optimisation of their positions. As market volatility continues and spreads rise, RDA data is revealing some interesting trends. The number of specials in UK gilts and US treasuries is continuing to grow and, following the recent turmoil in the UK liability-driven investment (LDI) market, haircuts have started to adjust accordingly.

RDA is the tool that the repo market has been waiting for to allow it to develop further. As the market continues its transformational path, the market intelligence, and the opportunities that an independent data source such as RDA can provide, is critical to unlocking new asset classes, liquidity and capital to help the market develop even further.

Latest moves at Kaizen Reporting, State Street and J.P. Morgan

Copper.co, a firm that provides infrastructure for digital asset investors, as well as trading and prime brokerage solutions, has appointed Ben Thomas as asset optimisation director.

Thomas will report to head of prime Michael Roberts in his new role at the firm's London-based office.

Prior to joining Copper.co, Thomas was an equity finance trader at BNP Paribas Corporate and Institutional Banking (CIB) during 2022.

Between 2004 and 2022, Thomas was employed at Deutsche Bank, most recently as a global prime finance trader.

Regulatory technology firm Kaizen Reporting has appointed Matthew Vincent as a managing director.

Vincent has more than 30 years of experience in financial services, including more than 10 years' experience working in regulatory reporting functions at Tier 1 banks.

Prior to joining Kaizen, Vincent spent three years at the London Stock Exchange – UnaVista where he was the director of regulatory reporting strategy.

This included providing MiFIR reporting subject matter to clients in the UK and EU.

Vincent was also head of MiFID regulatory reporting at Credit Suisse for five years, and previously worked for Barclays Investment

Clearstream appoints Delaunay

Clearstream has appointed Gael Delaunay as global head of collateral management.

Based in Luxembourg, Delaunay reports to Marton Szigeti, head of banking, funding and financing.

Delaunay takes on the role with more than 20 years of experience in the financial services sector. He joins the company from BNY Mellon, where he was formerly appointed head of collateral management for Europe from 2013 to 2022.

During his term with BNY Mellon, Delaunay was appointed deputy general manager for the firm's Paris branch in 2015, alongside his role in collateral management.

Prior to this, Delaunay was based in London as a securities services and cash management, sales and relationship manager at J.P. Morgan from 2007 to 2012. Previously, he served a five-year term with BNP Paribas as operations manager for settlements and later as relationship manager.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Bank in the operational compliance team, advising on MiFIR transaction and EMIR reporting. He also worked at Citigroup and Deutsche Bank.

He is a member of the Consultative Working Group supporting ESMA's Market Data Reporting Working Group and chaired the UK Finance Transaction Reporting Working Group for more than ten years.

Commenting on Vincent’s appointment, Dario Crispini, CEO of Kaizen, says: “Matthew is a well-known and respected industry specialist and it is great to have him on board. He brings a wealth of experience and a deep understanding of the industry and reporting regimes.

“Regulators across the globe are increasingly vocal that they expect the highest quality of regulatory reporting data from all firms and, with the addition of Matthew, we can continue to meet the demand from our clients for high quality services that help them to meet their reporting obligations and manage their reporting risks.”

Vincent adds: “Kaizen Reporting have established themselves as a market leader within the regulatory reporting industry. I look forward to being part of the Kaizen team as we continue to develop and enhance products that make working and complying with regulation easier for financial firms.”

State Street has appointed Darren Pateman as a collateral product manager on contract.

Prior to State Street, Pateman was senior consultant at FIS for more than four years, with a focus on project planning, project management and solutions implementation.

Before that he was a business analyst at Deutsche Bank from 2013 to 2017, returning to the bank having previously served as assistant vice president for collateral management and valuations from September 2008 to September 2011.

Pateman was business analyst and project manager of collateral and client clearing at HSBC Global Banking and Markets from September 2011 to August 2013.

He was also supervisor of over-the-counter and repo collateral management at Lehman Brothers from 2006 to 2008.

J.P. Morgan has appointed John Moran as APAC head of client services, bolstering the firm’s collateral team.

Based in Hong Kong, Moran will report to the head of APAC collateral services O’Delle Burke.

Moran joins the firm from his position as head of securities finance business development at BNY Mellon, which he had held since 2020.

Prior to this, Moran held a number of sales positions across Refinitiv, Thomas Reuters, FP Markets and IG Markets Australia.

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OCC Stock Loan Programs

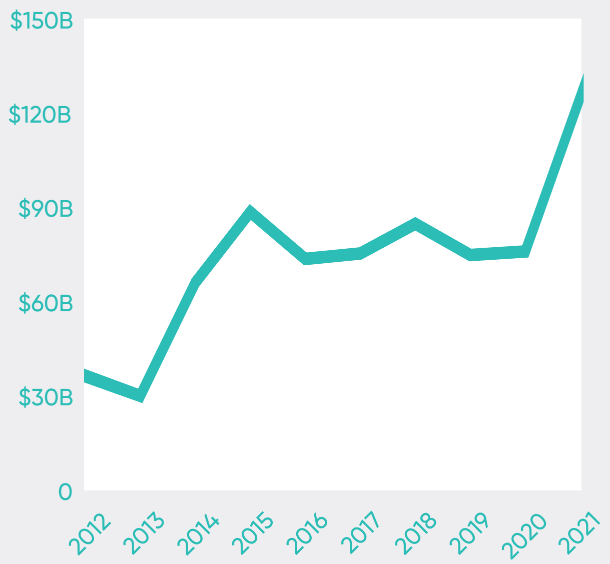
Key Benefits

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

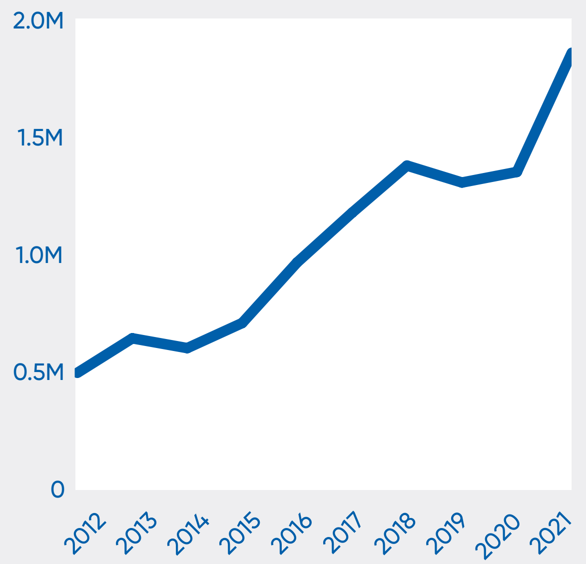
79
HEDGE LOAN PROGRAM MEMBERS

125B
AVERAGE DAILY LOAN VALUE AT YEAR END 2021

Annual Notional Value of Loans



Annual New Loan Transactions



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