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Beijing Stock Exchange launches securities lending and margin trading

The Beijing Stock Exchange has launched securities lending and margin trading according to a public statement released by the exchange.

This will permit securities services companies authorised by China Beijing Equity Exchange (CBEX) group to offer securities lending and margin trading, with trading parties required to report the transactions to CBEX.

The exchange will announce a full list of securities that will be eligible for lending and that can be used as margin via a page on the Beijing Stock Exchange website relating to Information Disclosure — Margin and Securities Lending Information.

Although these details are still to be confirmed publicly, Securities Finance Times understands that stocks in the CBSE 50 Index will be eligible for securities lending and for margin financing.

Stocks will also be eligible that have been listed for at least three months, have an average daily turnover of CNY 3 million (US$0.44 million) and have an aggregate market value of at least CNY 1 billion.

The exchange indicates that this release marks an important step in the development of the CBEX market system by boosting market liquidity, enhancing trading functions and improving price discovery in the secondary market.

This represents part of continuing steps under the supervision of the China Securities Regulatory Commission, the securities market regulator, to expand the range of trading tools that it offers to investors and to create innovative capital-raising mechanisms for small and mid-sized enterprises.

CBEX group provides multi-asset class trading and data services, approved by the Beijing Municipal People's government, and specialises particularly in commodities and resource stocks and in bringing state-owned enterprises (SOEs) to public trading.

06

Zodia Custody and SBI to establish crypto asset venture in Japan

Crypto asset servicing provider Zodia Custody and SBI Digital Asset Holdings are to launch a joint venture in Japan

18

A bright future in finance

Yuka Hasumi, head of EquiLend Japan, speaks to Carmella Haswell on the firm's plan to transform the securities lending space through its 1Source initiative, the varying pace of change for regulation globally and trading opportunities

22

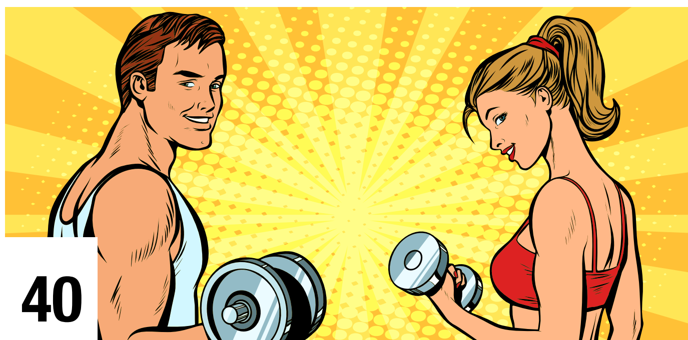
Broadening the market

Paul Solway, communications officer at PASLA and BNY Mellon's head of securities finance for Asia, speaks to Carmella Haswell about the opportunities presented across the APAC market, PASLA's focus for 2023 and how Q1 is shaping up for the industry

26

APAC market panel: facing stormy seas with positive momentum

Panellists evaluate the performance of Asia's securities lending markets during 2022, new market opportunities in the APAC region and where the drivers of growth will be found during the year ahead



40

Toning up in the collateral gym

In the first of two articles on collateral management strategy, Bob Currie examines advances in collateral optimisation and electronic negotiation of collateral schedules

48

The FinOptSys journey: not all fintechs are created equal

Divyesh Bhakta, founder and CEO of FinOptSys, reveals the firm's road to innovation through key partnerships, product offerings and combating challenges to build the core pieces of its platform

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Zodia Custody and SBI to establish crypto asset venture in Japan

Crypto asset servicing provider Zodia Custody and SBI Digital Asset Holdings (SBI DAH) are to launch a joint venture in Japan.

The joint venture will act as a Japan-based crypto assets custodian, targeting institutional clients.

The venture will allow both groups to expand their existing markets presence and increase their ability to provide custody services and other ancillary services for crypto assets to institutional clients.

SBI and Zodia Custody will use their technical expertise in the crypto asset space, as well as their operational knowledge, to ensure the appropriate safeguarding of the institutional client's assets.

51 per cent of the venture will be owned by SBI DAH and 49 per cent by Zodia Custody.

Zodia Custody is a subsidy of Standard Chartered and is also backed by Northern Trust.

Drexel Hamilton selects FinOptSys platform

FinOptSys has welcomed military veteran owned and operated investment bank Drexel Hamilton onto its platform.

Drexel Hamilton will utilise FinOptSys' capabilities to support and scale its specialty finance business.

The FinOptSys platform provides pre-trade, analytics and decision making that spans the entire spectrum of securities financing products, asset types and market participants.

Commenting on the announcement, Bill Gilchriest, managing director of specialty finance at Drexel Hamilton, says: "The FinOptSys team came in and immediately understood our needs. We are confident that they will provide a great product for us. We are excited to partner with FinOptSys as we continue our social mission of hiring, mentoring and providing opportunities for United States veterans."

Divyesh Bhakta, founder and CEO of FinOptSys, adds: "Giving back is an integral part of the FinOptSys culture and we look

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forward to partnering with Drexel Hamilton on future initiatives in their mission to create and provide opportunities for military veterans within the financial services sector."

Standard Chartered approved for 'wholly foreign owned' securities firm in Beijing

Standard Chartered Bank (Hong Kong) Limited has been granted in-principle approval by the China Securities Regulatory Commission (CSRC) to set up a securities firm in Mainland China.

With an initial capital injection of RMB 1.05 billion (US$155.6 million), the new firm, Standard Chartered Securities (China) Limited, will cover underwriting, asset management — restricted to asset-backed securities only — own-account trading and brokerage activities.

The move is set to play a key role in Standard Chartered Group's business strategy in China. Based in Beijing, the new firm will provide products and services related to China's onshore capital markets for onshore and offshore clients.

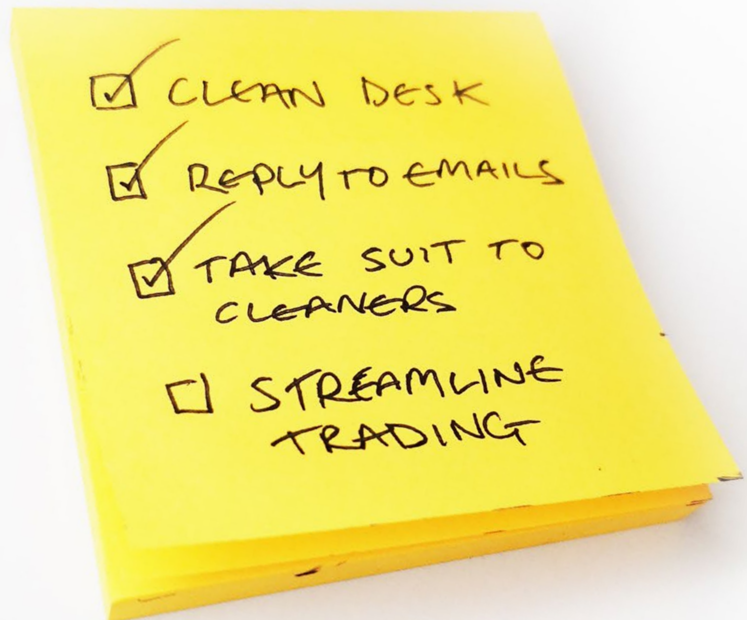
Standard Chartered says this is the first time the CSRC has granted in-principle approval for the set-up of a securities firm wholly owned by a foreign shareholder via greenfield investment in its onshore market, since the lifting of ownership restrictions for foreign financial institutions in 2020.

The bank will appoint John Tan, head of financial markets, Asia at Standard Chartered, as chairman-designate of the new securities firm, and Grace Geng as CEO-designate.

In February 2022, Standard Chartered announced that it will invest US$300 million in China-related businesses over the next three years, aiming to help clients capture opportunities brought by China's continuous opening up.

Commenting on the milestone, CEO of Asia, Standard Chartered Benjamin Hung says: "We are confident of the continued opening of financial markets in China and are very positive about the country's development prospects.

"In particular, the promising investment value of the onshore capital markets and the growing attractiveness of Renminbi assets in offshore markets. This is another major milestone for our China franchise, one we remain very committed to."



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Jerry Zhang, executive vice chairman and CEO of China, and Cluster CEO (China and Japan), Standard Chartered, adds: "As China continues to open up its capital markets rapidly, the importance of Chinese assets in the global markets keeps growing, while the efficiency of its resource allocation is also improving.

"With the official approval granted, we expect that when the securities firm launches its business, Standard Chartered will be able to better serve our Chinese and overseas clients, providing holistic and high-quality financial services, including in exchange markets to both mainland and international enterprises and institutions 'going in' and 'going out' of China's markets."

Geng says the firm will have a unique business strategy and focus on fixed-income businesses. She continues: "Riding on the bank's international network, strong capacity in product innovation and structuring in the fixed income area, as well as its full commitment to serving China's capital markets, the securities firm will adopt a differentiated business model."

SNB Capital enlists Broadridge to build securities lending business

Saudi Arabia-based financial institution SNB Capital has chosen Broadridge to help build out its local securities lending and borrowing business.

SNB Capital will incorporate Broadridge's Securities Finance and Collateral Management (SFCM) solution to grow the coverage of its securities services offering on local assets.

The firm aims to expand its financial market footprint following approval of market marking rules, in addition to the green light given in 2022 for the amended Securities Borrowing and Lending Regulations by the Saudi Exchange Securities Depository Centre (Edaa), says SNB Capital.

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international best practices, allowing institutions to drive the creation of securities lending and borrowing programmes.

SNB Capital is implementing Broadridge's full lifecycle agency and principal securities lending solution to deliver all aspects, front-to-back, of borrowing and lending trading and operational needs, with the hopes of providing scalability for the future as the firm continues to expand.

Darren Crowther, head of securities finance and collateral management at Broadridge, says: "Broadridge is excited to grow its strong partnership with SNB Capital as we jointly continue to bring more value to SNB Capital's clients with a new securities lending and borrowing service offering, across multi-custody principal and agency trading models."

"Global markets are increasingly complex with greater numbers of potential revenue streams across the business. Broadridge's SFCM solution enables firms to start up rapidly, capturing securities finance growth opportunities, while integrating with other internal or external systems, to help them meet their regulatory obligations and streamline their operations."

Loai Bafaqeeh, head of securities division at SNB Capital, adds: "SNB Capital is perfectly positioned to satisfy strong demand for securities lending and borrowing across Saudi Arabia.

"With Broadridge and their SFCM solution, our joint efforts will provide global SBL expertise, an end-to-end platform with the required trading, operations and connectivity, as well as the capacity to rapidly bring this product to market, based on the updated regulatory and market structure provided by the Saudi Exchange and Securities Depository Centre."

Wematch.live platform hits US$150 billion in ongoing notional value

Wematch.live has surpassed US$150 billion

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in ongoing notional value for its securities finance platform on 9 February 2023.

The milestone follows the firm's announcement that the platform had reached US$5.8 billion in average daily matched volume in January.

Wematch's securities lending product is part of a suite of workflow solutions which includes total return swaps, repos and sales to trader, among other modules.

Commenting on the achievement, co-founder and global head of securities financing of Wematch.live David Raccat says: "This significant milestone is a testament to our commitment to providing the best possible securities finance marketplace to our clients.

"We are proud of the growth and success we have achieved, and we are dedicated to continuing to provide cutting-edge solutions to the securities finance industry."

EU repo activity on BrokerTec rises 16%

BrokerTec has seen average daily notional value for EU repo activity rise 16 per cent YoY for January to €331.7 billion (single sided).

However, for US repo activity, average daily notional value has contracted 3 per cent YoY for January to US$260.1 billion.

John Edwards, global head of BrokerTec at CME Group, says that "in common with previous years, the first week of January started at a steady pace across both euro and UK gilt repo markets". Volumes rose as the month went on, reverting back to levels that were last seen in November and the beginning of December.

For cash market trading in US treasuries on the BrokerTec platform, average daily volume was down 25 per cent YoY for January to US$105.4 billion.

CME Group senior economist Erik Norland reports that 10-year US treasury yields declined by over 20bps in January against softer inflation data. In contrast, European bond yields were little changed. While Europe's headline inflation numbers have come down in line with falling energy prices, Norland indicates that European core inflation remains stubbornly high.

"The other facet of the bond market that stands out is the inversion of the US treasury yield curve and the market's implicit assumption that the Fed will shift to cutting rates later in 2023 and in 2024. As of the end of January, the US had the most inverted yield curve in decades," he says.

For CME Group derivatives trading, futures and options ADV for the year-to-date is down 12 per cent to 21.70 million contracts.

Breaking this activity down, interest rate derivatives ADV has contracted 4 per cent ytd to 10.3 million contracts.

Equity derivatives ADV is down 23 per cent ytd to 6.69 million contracts.

Energy contracts ADV has fallen 14 per cent ytd to 2.03 million.

For this trading activity, trading on CME Globex has fallen 15 per cent ytd to 19.53 million contracts.

In contrast, open outcry trading has grown 29 per cent ytd to 1.29 million contracts. Privately-negotiated contracts are up 22 per cent to 879,000.

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Changing nature of liquidity risk may amplify market shocks, says ESMA

High levels of uncertainty and fragile market liquidity are limiting the resilience of the financial system against external shocks, the European Securities and Markets Authority (ESMA) finds in its latest Trends, Risks and Vulnerabilities Risk Monitor report.

Recent stresses linked to liability-driven investment (LDI). strategies that invest in GBP-denominated government bonds illustrate how quickly these risks can crystallise, notes the EU securities markets regulator.

A sharp rise in gilt yields in late September and early October, in the wake of the UK mini budget, accentuated liquidity pressures on heavily leveraged LDI funds. Margin requests surged on repo transactions collateralised by government bonds and interest-rate derivatives (IRDs).

LDIs attempted to sell sovereign bonds in their search for liquidity but, according to ESMA, the market was unable to absorb this volume of bond sales, prompting the Bank of England to intervene to support the sovereign bond market via a targeted short-term asset purchase programme.

With these developments, ESMA indicates that its systemic stress indicator, a refinement of the ECB composite indicator of systemic stress, has hit levels higher than those witnessed during the pandemic, particularly owing to these high volatility levels in EU sovereign and corporate bond markets.

In commodity derivatives markets, ESMA finds that the sharp rise in energy derivatives prices observed on the back of the Russian invasion of Ukraine, and the associated increase in margin requirements on exchange-traded derivatives (ETDs), has driven a migration of derivatives trades to non-cleared OTC markets, especially for non-financial corporates (NFCs).

For commodity trading firms, this represents a move to reduce their initial margin and variation margin commitments on cleared ETDs by stepping up their trading through OTC channels, where they may be able to negotiate less restrictive collateral arrangements, particularly for firms with a strong credit rating.

According to ESMA data, NFC exposures to OTC energy derivatives immediately prior to the Russian invasion of Ukraine represented approximately 15 per cent of outstanding gross notional amounts. However, this rose to around 25 per cent with the onset of conflict and had grown to almost 40 per cent of gross exposures by the end of December 2022.

ESMA concludes that this migration from ETD to OTC presents risks for the market. OTC markets typically offer lower liquidity than their ETD counterparts, it notes, and do not offer the price discovery, and levels of pricing transparency, delivered by lit markets. Moreover, uncleared trades, by definition, do not benefit from the centralised risk management offered by a central counterparty.

More broadly, ESMA notes that a wider range of structural developments over the last decade have increased the potential for liquidity risk in times of stress.

One is the liquidity mismatch confronting open-ended investment funds, which may offer daily liquidity to their investors but may be invested in relatively illiquid instruments that may be difficult to sell under stress conditions. In these circumstances, the funds may struggle to meet redemptions from unit holders in conditions of high volatility, such as those witnessed when the pandemic took a grip in Europe in March 2020.

Second, while the promotion of central clearing for derivatives transactions has lowered financial stability risk, this has potentially increased liquidity risk for the reasons outlined.

Developing this point, ESMA notes that liquidity supply has changed significantly over the past decade.

The shift by some banks from a dealer-based model of liquidity provision to a broker-based model — where banks, according to ESMA, act more like “pass-through agents” — has changed the mechanisms through which liquidity is supplied to the market. Wider use of electronic trading has also enabled proprietary-trading firms to become dominant participants in liquid markets.

In stress conditions — or even in the run up to periodic reporting deadlines — liquidity suppliers may be reluctant to provide liquidity owing to balance sheet constraints or because they have a lower appetite for risk.

The overall outcome, says the Authority, is that in current conditions of financial uncertainty market shocks may be magnified by imbalances in liquidity supply and demand.

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A bright future in finance

Yuka Hasumi, head of EquiLend Japan, speaks to Carmella Haswell on the firm's plan to transform the securities lending space through its 1Source initiative, the varying pace of change for regulation globally and trading opportunities

As we continue into 2023, how would you assess EquiLend's securities lending programme performance in APAC so far? What trends and opportunities do you predict for the year?

For EquiLend, 2021 was one for the record books in terms of our Next Generation Trading (NGT) platform, despite having faced the COVID-19 pandemic. This was predominantly the result of global market volatility encouraging an uptick in clients using our NGT platform. This positive trend carried into 2022 — the year overall was very positive and extremely active for EquiLend.

The total trades we saw globally for 2022 increased by 10 per cent, when compared to an already high number of trades in 2021. When focusing on APAC — Japan being one of the biggest active markets in the region — EquiLend saw a year-on-year increase of 19 per cent in trading volumes for 2022 overall. The same theme of market volatility continued into 2022, which drove securities finance market volumes globally and regionally.

2022 was a really tough year, with global issues permeating through the financial landscape, in terms of the levels of inflation that impacted all global markets, the war in Ukraine and political uncertainty. We have seen different trends in demand and in the squeezes that we saw in the securities lending industry, which was reflected in NGT platform activity.

Looking ahead, there is considerable focus on non-general collateral (GC) execution and bringing other trade types onto the platform for greater efficiency, with a focus on high-touch and high-alpha trading opportunities. For instance, NGT's targeted availability provides a great way to handle specials while still leveraging the efficiency of automation through EquiLend. There is an increased interest in bond lending markets, as well as capturing more participants from markets such as Taiwan, South Korea and the like, as a large portion of these trades are not yet automated.

We are looking to continue to invest in platform improvements to reflect that trading behaviour and the appetite that we have been seeing from the community, as well as to encourage more automation and straight-through processing (STP) across all trade types. One of the enhancements that EquiLend is releasing globally in supporting that growth is our latest launch, Competitive Bid, as part of NGT, a purpose-built hard-to-borrow marketplace.

EquiLend unveiled its 1Source initiative in July 2022. What trends are you seeing in the DLT space in APAC? How are high levels of interconnectivity being provided across Asia?

1Source is currently in the design phase. We are working with key market participants as a joint initiative. For EquiLend, 1Source will be key to demonstrating our strength in innovation, interoperability and emphasising our longstanding client-first approach. Together, this allows us to help transform the securities finance space. 1Source is there to help eradicate reconciliation challenges by providing access to a "single source of truth" using distributed ledger technology (DLT). Increasingly, market participants are looking for technology which is more innovative, scalable and that solves the significant issues that everybody deals with on a daily basis.

From a client's perspective, the decision to adopt innovation may still require a very thorough analysis. What we have been hearing is that DLT is regarded as a foundational technology that I think has potential to create new foundations for the global securities finance space today.

It is still early days from an APAC perspective. A number of people still have questions about what DLT is. Everybody is going to face headwinds when it comes to new technology and APAC will learn from other regions in this space.

In APAC, participants feel a priority to promote technology adoption to boost efficiency and generate greater revenue streams. I hope it is a key message that APAC participants feel is needed to accelerate that innovation and meet the highest benchmark for greater operational efficiency.

The industry is continuously reviewing the relevance of ESG principles to securities lending programmes. How is the relationship between ESG and securities lending progressing in APAC and what concerns do people face if integrating the two?

Environmental, social and governance (ESG) continues to hit the headlines and present challenges for all vendors and clients across the globe. However, the opportunities are greater by leveraging a variety of technology capabilities and strategy to create business opportunities.

We are working with the market to make it more efficient to comply with ESG principles. For instance, we introduced an additional protocol that provides to lenders the ability to quote a callable date upon execution of a trade over the NGT platform. It allows brokers to be made aware of upcoming events such as annual general meetings (AGM) or extraordinary general meetings (EGM). There are firms which are very ESG aware and want to recall a stock that lacks governance around ESG. Globally, ESG is becoming increasingly imperative.

EquiLend rolled this protocol out to reach more firms in Japan as we found that there is an appetite from onshore online securities brokers, in particular, for us to help support that functionality. It is applicable for global custodians as well, for them to comply with the underlying fund ESG requirements.

While ESG is highly important and is a large focus for clients globally, it is not a simple process to benchmark firms across all three ESG criterias. For example, there is the often-cited example of Tesla being booted out of the S&P 500 ESG Index for lack of ESG credentials.

ESG is more complex than people had initially thought. Last year, EquiLend launched an ESG Data Analysis and Validation service for securities finance market participants to address a clear industry need for higher-quality ESG validation options, to help the market in achieving their ESG goals. ESG is a journey that will be ongoing for some time, EquiLend is here to support the market throughout this time.

Which regulatory changes is EquiLend most focused on this year?

EquiLend is regulated in every region that we operate in. We formed a regulatory technology solutions division called RegTech Solutions, headed up by Kevin McNulty, to create dedicated support for clients in fulfilling their regulatory requirements, regardless of the region that they operate in.

Regulation will continue to challenge market participants and vendors, with each regulation being so nuanced and complex. We all need to be prepared for the impact of such changes by adopting the best solution, technology or products to remain compliant.

EquiLend has a long track record of deploying regulatory solutions around Securities Financing Transactions Regulation (SFTR), Central Securities Depositories Regulation (CSDR) and Agency Lender Disclosure (ALD). These have been some of the most significant regulations that our clients have had to comply with over the years.

CSDR recently celebrated one year since the enactment of the settlement discipline regime. We launched the Settlement Monitor tool ahead of CSDR, a solution that is dedicated to tracking, reconciling and resolving pending and failed securities finance transactions. The benefits that it has provided for our clients, year-to-date, are pretty dramatic. There were significant cost savings and an increase in automation of returns as well, which saw a 25 per cent increase YoY from 2021.

The pace of change for the regulatory landscape varies significantly from market to market. In Taiwan, for example, regulators rolled out consecutive short-selling rules within three weeks in October 2022. On the other hand, Australia and Japan are more akin to the US or EMEA, where there is a very long flight path of deliverance of a regulation. Taking the U.S. Securities and Exchange Commission's (SEC's) 10c-1 proposal as an example, the proposed rule was announced in 2021 and is yet to be finalised. However, EquiLend is ready to support it the moment it goes live.

We are putting substantial effort into ensuring that we can continue to work in each region to prepare for any new regulations that may be on the horizon, and to help our clients do the same.

It has been four years since the Japan-based Government Pension Investment Fund (GPIF) announced its stock lending suspension. Looking back, how has the move impacted the securities lending sector and what has the industry learnt from this?

I'm sure it was not an easy decision for GPIF, as the fund reportedly generated significant revenue from securities lending activity.

I think there was a short-term impact, but this was predominantly in markets where GPIF's holdings were very active— in the European and US markets for example. The event has made market participants realise that there is a large universe of beneficial owners and possible lenders out there.

The landscape has changed so much within securities lending in the past three years, it would be quite interesting to see what impact GPIF could have if it came back to the market.

How is EquiLend further developing its securities lending solutions in 2023?

For EquiLend, the big focus at the moment is on digital transformation, specifically with the 1Source initiative. DLT definitely has a bright future in finance and within the securities finance space as well. The current global economic landscape may present a short-term setback in terms of technological advancement throughout the market, but, ultimately, it should help to accelerate the upcoming innovations that everybody has been talking about to meet the benchmarks of operational efficiency.

All market participants, in different ways and at different levels, are facing digital transformation, and EquiLend has continued to dedicate more resources and effort to this area. I think we are in a very exciting position right now and we continue to look ahead for new opportunities.

Another priority for us this year is the continued deployment of EquiLend Spire, which is a robust securities finance platform that powers a client's entire business. We are dedicated to working with our current and future EquiLend Spire clients to upgrade legacy systems to EquiLend Spire's state-of-the-art technology.

1Source and EquiLend Spire are just two of our areas of focus in 2023 and beyond. We are proud of our longstanding commitment to developing a more efficient securities finance marketplace globally, with continued innovation across our full ecosystem of trading, post-trade, data and analytics, regulatory technology and platform solutions.

"The big focus at the moment is on digital transformation, specifically with the 1Source initiative"

Broadening the market

Paul Solway, communications officer at PASLA and BNY Mellon's head of securities finance for Asia, speaks to Carmella Haswell about the opportunities presented across the APAC market, PASLA's focus for 2023 and how Q1 is shaping up for the industry

Uncertainty remains a common theme for the industry in Q1 2023, as macro headwinds shift from the pandemic to geopolitical strains, while previous pent-up demand spurs inflation and soaring energy prices — not forgetting the ongoing conflict in Eastern Europe. Such uncertainties create equal amounts of risk-on and risk-off activity for the sector, says PASLA communications officer and committee member Paul Solway.

With most of the world having reopened, including Hong Kong, capital mobility is improving once again in 2023, which in turn is fuel-injecting corporate activity. Solway indicates that rising interest rates have been one of the substantial differences shaping the performance of securities lending markets in Q1 2022 versus Q1 2023. While interest rates this time last year were near-zero, today they are pushing 4 per cent in most major countries — with the exception of Japan.

APAC activity and returns have benefited in terms of cash reinvestment premiums, as well as demand for fixed income repo, explains Solway.

He adds: "From a market perspective, Taiwan achieved some fantastic returns in 2022 — with US$490 million in revenues and 288bps in average fees, according to DataLend — and despite having a relative respite so far in 2023, there is every chance that Taiwan will continue to give Japan and Hong Kong stiff competition for the top revenue slot in 2023."

Unlocking market potential

Opportunities present themselves in streamlining existing markets and opening new markets, according to Solway. "As China reopened its borders faster than expected, we hope this will be similarly reflected in the current financial boundaries and attitudes to incorporating best practices and standards from around the world," he asserts.

In the Philippines, new securities-based lending (SBL) rules have been "frustratingly slow" to develop through the local authorities as rules remain pending, according to Solway. He hopes that as normality returns, regulatory approvals will accelerate, allowing a more open market to evolve.

Other opportunities present themselves in Indonesia, where PASLA is working with local authorities to open up the market. Bank Indonesia and the Indonesia Stock Market Clearing House (KPEI) has issued new regulations regarding an onshore bilateral SBL facility that aims to match potential borrowers and lenders directly. Under previous SBL arrangements, the borrowing party needed to contact KPEI to initiate the trade, followed by a validation process to match with lenders.

"Despite this offering being largely aimed at domestic participants, PASLA welcomes such progress and will continue to work with local authorities to further open up this exciting market to the offshore community," Solway states.

Highlighting the impact of demand for high-quality liquid assets (HQLA) on the market globally — which continues to grow at a "phenomenal rate" — Solway notes that access to additional fixed income liquidity in the region is certainly a priority for Japanese and Australian government securities. Where the collateral is being "swapped in", borrowers and lenders need to be flexible, commercial and pragmatic towards their available inventory pools and risk appetites.

"We look forward to seeing wider demand, appetite and collateral acceptability across the region that will both spur activity, promote liquidity and ultimately bring positive economic growth to the multiplex of jurisdictions within the Asia-Pacific region," Solway states.

While the demand for HQLA skyrockets, the interest in transitioning to a T+1 settlement also continues across the market globally, with India becoming one of the more recent regions to transition to the shorter settlement cycle. From 27 January 2023, trade-related settlements in India markets will need to be cleared within a day of the transaction.

Speaking about this T+1 migration and the market's reaction to it, Solway says: "Clearly T+1 settlement cycles are becoming more top-of-mind these days, especially in the US, but such a move is not necessarily a surprise. Asia is already dealing with shortened settlement (e.g. China, T+0) or recall cycles (Taiwan, Singapore, Malaysia) across the region and so risk and operational frameworks are already aligned to lifecycle processes that need to be naturally nimbler and more automated."

As India remains a principally onshore market with respect to SBL, Solway believes there has been a limited reaction to the shift, given structural and commercial challenges that make it difficult for participants to scale up activity — and therefore liquidity — in this "very nuanced market".

Adjusting the focus

As the new year gets off to a positive start — S&P Global Market Intelligence report a 34 per cent year-on-year jump in global securities lending revenues for January, generating US$1.117 billion in revenues — firms continue to explore their positioning in the market and set their priorities straight for the following months. For PASLA, advocacy and education plays a key role in influencing the constantly evolving industry across the 10 plus markets in APAC. Therefore, resuming in-person meetings is a focus for the association.

After a four-year hiatus, the Pan-Asia Securities Lending Association (PASLA) and the Risk Management Association (RMA) have welcomed back more than 300 delegates to Tokyo for the 17th Annual Conference on Asian Securities Lending.

The "long overdue reunion" — which will feature Daiwa Institute of Research chairman Hiroshi Nakaso as keynote speaker — is set to provide an essential update on the latest developments for the securities lending market in Asia, what to expect during 2023 and deep dives into the key themes shaping the industry.

Exploring topic highlights for the event, Solway indicates that there will be much discussion on the future of securities finance and the outlook for crypto assets, tokenisation, distributed ledger technology (DLT)-driven repo and digital bonds. Market participants can also expect a regulatory update session, which Solway explains is more important than ever, adding that "Asia is not immune to evolving global standards that impact all participants across the lending chain".

The Association continues to focus on market evolution in China, which remains an important opportunity for a number of PASLA's industry participants. Nonetheless, Solway indicates that market activity continues to be split across those who can participate and those who cannot — "due to nuanced and complicated rules and regulations".

"Evolution does continue, with the Beijing Stock Exchange recently launching securities lending and margin trading (mimicking rules in Shenzhen and Shanghai) but again, the applicability remains firmly aimed at a domestic level with limited expected participation," Solway explains. "PASLA is keen to continue its engagement and advocacy in 2023 to ensure that all voices are heard, allowing for a more level playing field for both buy- and sell-side players, onshore and offshore."

PASLA will prioritise commercial netting updates in 2023, in addition to tax work across markets such as Malaysia, Australia and Hong Kong, while environmental, social and governance (ESG) will remain a key lens that the association looks through for all market and industry developments.

The Global Alliance of Securities Lending Associations (GASLA) — which was formed in September 2021 — has focused on developing the next iteration of the Global Framework for ESG and Securities Lending (GFESL). A significant update on the first GFESL will be released and discussed at the PASLA and RMA conference in March. Solway notes: "It is a real synthesis of perspectives from all of the member associations that has been formed by extensive discussion and consultation."

GASLA anticipates that the next iteration of GFESL will serve two main purposes for the industry. Firstly, it aims to be a valuable, practical reference point and guide for market participants — which was the original aim of GFESL and remains critical, says Solway.

Secondly, it will demonstrate to policymakers and regulators, globally, that ESG integration is a priority for the industry and that the associations are trying to define best practices that align with the policy goals that countries share. "In that respect, we hope it will support deeper engagement with regulators and other stakeholders, such as the UNPRI," Solway concludes.

As PASLA pursues its priorities for the year, the association's search for its first CEO continues. Solway explains: "This is clearly a critical appointment for PASLA and we are approaching it very carefully. The skills and background required for this role are also quite exceptional."

The desired candidate for the role is a person who understands the market and the challenges that practitioners face, in addition to having the ability to mobilise the organisation and achieve results. PASLA is speaking to candidates with a range of different backgrounds and hopes to find the right person soon — for now, the hunt continues.

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APAC market panel: facing stormy seas with positive momentum

Panellists evaluate the performance of Asia's securities lending markets during 2022, new market opportunities in the APAC region and where the drivers of growth will be found during the year ahead

Panellists

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

Jansen Chua
Senior vice president, head of securities finance, Asia Pacific, **State Street**

Natalie Floate
Asia Pacific head of market and financing services, securities services**, BNP Paribas**

David Lai
Product Manager, agency securities lending, Asia Pacific, **J.P. Morgan**

Phian Cheung
Asia Pacific desk manager, director of securities finance**, BNY Mellon**

How do you assess the performance of APAC securities lending markets during 2022?

Jansen Chua: 2022 was a difficult year for the markets, including securities lending activity. Despite a slew of macro headwinds, APAC's equity lending portfolios modestly beat expectations. A strong contribution from Australia and Taiwan specials lending offset softer Korea and Hong Kong markets. Fixed income lending activity also benefited from a widening of cross currency basis between the US and Australian dollar against the Japanese yen, driven by divergent central bank interest rate policies.

Natalie Floate: Globally, everyone looks at Asia Pacific for high fee levels, new market developments and new lending supply. 2022 did not disappoint in that regard, but it was not as strong as previous years in all areas. We saw increasing activity on the revenue side, with trade opportunities in the usual corporate activity with specials in Hong Kong, but we also saw increased use of Asian-issued government debt as collateral.

On the supply side, we identified new lenders entering the market and a renewed interest — post-COVID 'pauses' — to assess and enter the market, or to understand the barriers to entry and potential revenues. The focus on collateral needs has been a key trend — with securities lending being used to source liquidity or collateral, or to generate additional revenue for those long of HQLA.

Phil Garrett: It has been a challenging year across APAC in many respects. But there were also pockets of strong performance during 2022. The macroeconomic headwinds felt globally were compounded regionally by prolonged COVID-19 restrictions and regulatory tightening. The traditionally strong revenue markets of Japan and Hong Kong suffered from a dearth of event activity, including mergers and acquisitions, rights issues, placements and convertible bonds issuance, which are typical drivers of high fee trading strategies. Falling stock market valuations also adversely impacted revenue generation, with most indices tracking down in the 15-20 per cent range over the year. In addition, we saw a de-grossing of hedge fund exposures across the region.

On the positive side, some markets performed strongly — including Australia, boosted by the BHP Group listing consolidation, where revenues were up more than 50 per cent year-on-year. Taiwan revenues increased by approximately 20 per cent relative to 2021, driven by strong demand generated through short exposures to its tech-heavy index. The performance of these two markets and the fact that there was a full year of short selling activity in Korea — in contrast to 2021, where the short-sell ban was only partially lifted in May of that year — meant that overall APAC performance was relatively flat year-on-year.

David Lai: Throughout 2022, the APAC region saw a normalisation of lending activities across most markets and asset classes, with Australia, in particular, providing a plethora of opportunities for outperformance across both equities and fixed income lending.

This was driven by increased corporate event activity and strong directional flows within the equities space, alongside the Australian

Government's Quantitative easing (QE) monetary bond buying programme within the fixed income sphere. The Australian QE programme led to a reduction of fixed income assets in the repo markets — with assets that remained available to trade being highly sought-after — which provided support for funding activity at optimal levels.

Elsewhere in the region, the South Korean and Taiwanese markets continued to excel, offering high spread lending opportunities consistently throughout the year, inspite of the implementation of differing short sell measures by the respective regulators.

A high-volume, low-spread environment was sustained by the Japanese equities lending market in 2022, continuing the theme seen in preceding years — although intermittently interrupted by directional flows within specific sectors. Japanese fixed income lending also afforded additional opportunities for market participants to enhance their lending performance.

The Hong Kong market reacted negatively to ongoing pandemic restrictions during 2022, with pessimistic investor sentiments presenting challenges and impacting lending flows. Performance improved in Q4, with Hong Kong lending participants witnessing a recovery as the year concluded, setting the stage for a positive start to 2023.

Phian Cheung: APAC securities lending markets had a good 2022. Revenue numbers were some of the highest in recent years, although not as high as in 2018 when borrowing demand and volatility surged on the big dive after the longest bull run in history. Hong Kong, Japan and Taiwan were the top three markets in terms of revenue generation. Hong Kong, which has 50 per cent of the top 10 names in the region, enjoyed the highest average spread in five years at 1.27 per cent. Top specials included developers, healthcare, technology and restaurant chains, driven by China's regulatory crackdown and COVID-zero policy over the year. The top Hong Kong borrow was Tianneng power, which has generated fund interest since 2020.

The top Asia special in 2022 was BHP in Australia, which unified its corporate structure at the beginning of the year. The name was also one of the top 10 specials in 2021, following the launch of its 'unification' or listing structure proposal. Revenues in 2022 for APAC were fairly consistent on a quarterly basis. Hong Kong dominated more in Q3 (contributing to 30 per cent of APAC's number) due to the China property crisis and the slide in China technology and growth stocks. Japan contributed an estimated 21-25 per cent, Taiwan delivered 19-24 per cent, South Korea 13-17 per cent and Australia 11-12 per cent, across quarters.

One clear observation over the years has been that individual specials have contributed less to the overall revenue number and revenue sources have become more diversified. The percentage share of the top 25 and five 'specials' contribution to yearly revenue has come down from 35.83 per cent and 13.88 per cent respectively in 2019 to 19.48 per cent and 5.34 per cent in 2022. While a big special in the past (for example, Celltrion in 2018) might have contributed US$85 million on one single name, the sum of revenue brought by the top 10 specials together in 2022 was near to US$86 million. Shown another way, top

specials generated between US$6-26 million each in 2021-22 versus US$10-85 million each in 2018-19.

With the Federal Reserve hiking interest rates aggressively and creating volatility around markets, there was also an uptick in demand, spread and revenue from Australia government bonds and EM Asian government bonds. Demand for Australia government bonds, in particular, picked up in Q2 and Q3 owing to bond market volatility and market dislocation driven by the Reserve Bank of Australia's (RBA's) prior yield-control strategy. UST versus JGB remained the biggest bond transformation trade globally, with strong demand from APAC.

In which APAC markets do you identify new opportunities for growth of your lending business during 2023?

Chua: We believe Taiwan remains an attractive market for SBL activity, given the current low active foreign beneficial owner participation. The regulators took action in 2022 to limit short selling activity, but this did not have a significant impact on market opportunities and, as such, we see a significant upside for owners to expand their activity in this space.

Korea is another market that we are tracking closely. Recent announcements to replace or remove the current IRC construct by the second half of 2023 could translate into significant operational efficiencies for lending activity and end-investors alike — in turn, driving higher performance and returns.

Garrett: We expect to see growth resulting from continued regulatory pressures on balance sheets, the hunt for alpha and the need to optimise long holdings through funding trades. For APAC, this will provide opportunities for lenders that are able to accept expanded collateral types such as Korean treasury bonds, Korean equities and Stock Connect equities.

Development of APAC's securities lending markets will continue with measured progress, whether it is the enhancement of the China and India models or the implementation of offshore platforms in the Philippines, Indonesia and Vietnam. However, we do not expect developments in these markets to present material opportunities in 2023.

Lai: The implementation of the framework to support securities lending by offshore participants in the China, Philippines and Indonesian markets is always front of mind for us as we refine and develop our APAC strategy. Financial regulators have introduced a range of positive developments in these markets. We remain optimistic that the ongoing industry engagement and regulatory changes will yield positive results in future years.

General themes — with respect to collateral optimisation, digitalisation and the ability to provide bespoke solutions to our clients — drive the investment and strategy of our wider trading services business. Our teams of multi-asset traders, our unique ASF financing solutions team and our triparty business, ensure that we are always at the forefront of introducing new products to the market, thereby increasing our APAC footprint strategically to monetise growth opportunities as and when it is appropriate.

Which regulatory initiatives in APAC

markets will consume most attention for your agency lending and collateral management teams over the coming 12 months? What programmes are ongoing within PASLA, and at industry-level more broadly, to support this change agenda?

Garrett: Taiwan and Korea will be prominent in our regulatory focus. Taiwan reduced its short-sell quota from 30 per cent of 30-day average daily volume to 20 per cent, and then 10 per cent in October. While this did not have an immediate impact on lending performance, a prolonged period of reduced quota may be detrimental through 2023.

In Korea, disappointingly, we did not see the anticipated lifting of the remaining short-sell ban in 2023. As it stands, short selling can still only occur for KOSPI200 and KOSDAQ15 constituents, providing limited opportunity for market participants. The enhanced regulatory reporting, oversight and enforcement regime, while well intended, creates an additional burden and risk for borrowers which is likely to play a critical part in any decision pertaining to participating in the Korean market. This does not bode well for demand for Korea heading into 2023 and we expect revenue opportunities from this market to remain suppressed.

Northern Trust is an active member of the PASLA board and within its working groups. The working groups cover all the APAC markets, engaging with regulators and regional stock exchanges to promote the development and enhancement of securities lending across the region.

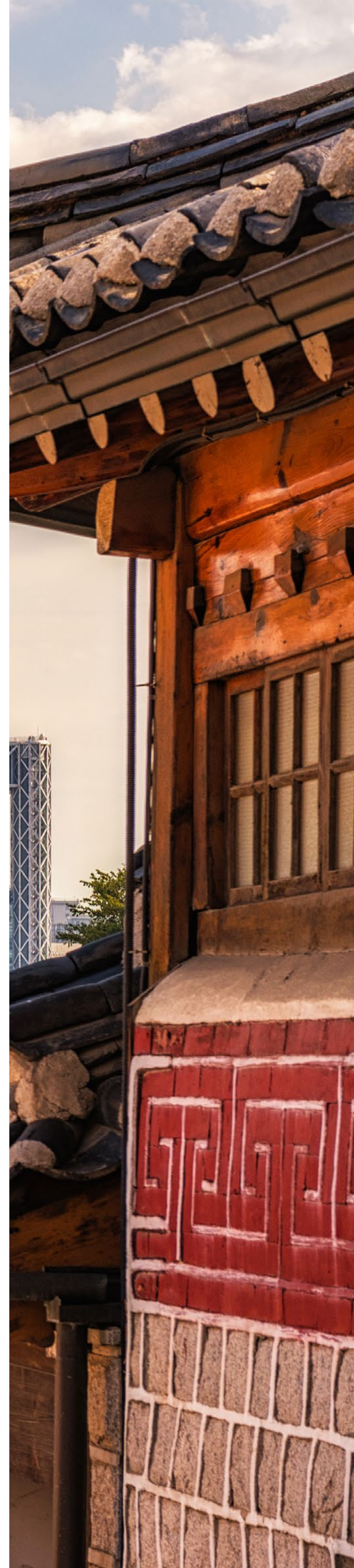
Chua: We are expecting to work closely with PASLA and ASIFMA over the next 12 months on the further liberalisation of the Chinese markets. Adoption of proposed recommendations and structural changes could help ignite SBL activity within the HK-Stock Connect framework, which would further provide benefits in terms of improved market resilience and financial stability.

The proposed change to T+1 for US equity markets, while not strictly related to APAC, will have an impact on agent lenders and APAC beneficial owners, particularly those with US equity lending programmes. Changes to investment management operating models (such as trade capture timings, instruction routing and information dissemination) and SBL processing (such as trade inputs, recall processing) are likely to be necessary in order to ensure compliance.

Finally, we also expect to be engaged with PASLA regarding Indonesia and the Philippines, following up with the relevant authorities on the positive strides made by both jurisdictions in 2022 to open up securities financing markets.

Cheung: Balance sheet management has never been more important to the securities lending industry, including for agency lenders as balance sheets of major prime broker borrowers have been greatly strained in past years. The cost of indemnification and other Comprehensive Capital Analysis and Review (CCAR) issues from agency lenders are resulting in the need for detailed and proactive capital planning.

The increase in high-quality capital to risk-weighted assets (RWA) of financial companies — a priority since the inception of CCAR in 2009 — has been growing over the years. This has created incredible funding trade



opportunities for lenders. The focus of RWA has also driven borrowers to shift balances to lenders that can offer decent amounts of inventory via low RWA funds.

This trend has continued in 2022. In response, banks have been working on creating innovative solutions for RWA buckets, automating consistent CCAR processes and frameworks, as well as building seamless risk-model architecture. They will require more resources and talent to improve in 2023 and beyond. The ability to navigate CCAR challenges and apply capital efficiently will, to a greater extent, differentiate the winners and losers across the industry.

From a lender's perspective, competitive margins and greater investments in technology and infrastructure changes regionally resulted in flows channelled to a reduced number of prime broker borrowers. For brokers, the landscape has evolved in the last couple of years — each concentrating on its own niche, be it ASEAN markets, Taiwan-specific execution or funding. On the lender side, if fewer brokers borrow securities, certain conservative restrictions on loan concentration leads to undesired ratios such as the single counterparty credit limit (SCCL), which in turn can impact daily business.

The cost of capital has also driven some agents to move up their GC rates to optimise return on capital. With all the challenges banks are facing on RWA and SCCL constraints, solutions have emerged such as agency prime brokerage, which connects buy-side lenders to buy-side borrowers through prime brokers, or peer-to-peer lending, which similarly connects buy-side participants directly via technology.

Agency SWAPs — SWAP access for prime brokers or borrowers hedged via buy-side inventory positions — managed by an agent lender, has also become more important. The industry anticipates further developments. To stay relevant in the new normal, intermediaries will continue to come up with creative solutions.

What investments and adaptations to technology and working practices have you made during 2022 to sustain and grow your securities lending activity in the Asia-Pacific region?

Lai: At J.P. Morgan, we believe our firm-wide technology budget is unrivalled in the industry, with more than US$14 billion allocated across our technology programme in 2022. While our underlying clients are direct beneficiaries of shared investment funds across the firm, for our securities services lines of business, technology investment has increased 40 per cent since 2016.

This investment has enabled the integration of our securities finance, collateral management and triparty services, allowing us to offer new collateral mobilisation and optimisation tools to our clients, helping to minimise the impact of increased margin requirements on financing revenue.

Investments have been made in support of growing demand for non-custody lending, as more beneficial owners take a 'best of breed' approach to agent selection, to providing a flexible approach to indemnification and facilitating direct financing transactions.

Empowering our clients to 'self-serve' has been

a continuing theme. While there has been a focus on modernisation and security — for example, greater use of our portal as opposed to emails — we have also concentrated on other important aspects such as data integration — leveraging across our multiple product offerings to bring more product related information together — and interoperability — streamlining across various applications.

Floate: We have been working on our global model for all developments. However, ensuring that functionalities, feeds and reporting work consistently from the US to Australia and New Zealand time-zones has been a key consideration for us. One example of this has been our trading overlay, which allows our traders, located at a desk anywhere in the world, to lend a local asset regardless of where the beneficial owner of that asset, or the account it resides in, is located.

We have also been focusing on settlement efficiency. It may sound a little boring, but we are in an environment where settlement cycles continue to contract. Consequently, it is essential to continue to improve operational efficiency to minimise the prospects of settlement fails or late matching.

Cheung: Automation of manual processes — for example, via Pirum and auto-borrow trading — remains a fundamental focus of most banks and market participants. Tighter lending settlement practices are here to stay as squeezes around efficiencies, regulation and fears of penalties bite. Taiwan is already a no-fail market. Korean authorities have upped the ante when it comes to short-sell penalties for any rule-breakers. If, or when, China opens its SBL market to offshore participants, a same-day settlement market awaits. Therefore, we are investing proactively in scaled solutions.

At BNY Mellon, we are focused on connecting the dots across our businesses to ensure that clients can take advantage of our services across liquidity, IM segregation, collateral optimisation, treasury services and FX. We are also committed to our people. Giving staff flexibility around work location has been key to our resiliency throughout the past three years. It has also been a game-changer in terms of both talent retention and attraction. A happy staff ultimately feeds through to happy clients and a culture of trust and resiliency.

Garrett: Our clients are facing growing demands on their assets as they seek to cover increasingly complex margin requirements, while remaining compliant with global regulatory challenges. At the same time, they are looking to minimise the impact of these challenges on overall performance. Northern Trust is working on a solution to help clients manage this complexity and drive efficiencies. Alongside Northern Trust's existing capabilities, we are pursuing the development of an integrated inventory management platform solution that would serve as the single point of interface across collateral management, financing and liquidity, as well as securities lending and borrowing.

Chua: We continue to invest in a multi-year re-platforming exercise for our proprietary securities financing platform and this effort has started to deliver efficiencies in 2022. We anticipate further opportunities to improve our offering in 2023 as roll-outs of new functions gather pace.

State Street also launched Venturi in 2022. Venturi is a peer-to-peer financing platform designed to connect buy-side firms with new sources of liquidity in the global repo space. Built through our partnership with FinOptSys, Venturi supports trade negotiation and enhances trade settlement and collateral management. In helping to centralise liquidity and enhance transparency, we believe Venturi will help clients to open up new trading opportunities, lower transaction costs and improve returns.

How have monetary conditions shaped post-pandemic securities lending opportunities in the Japanese market?

How are you positioning yourself to maximise opportunities for lenders and borrowers in this environment?

Lai: Japan is of strategic importance for the wider J.P. Morgan Securities Services franchise. We opened our agency securities finance trading desk in Tokyo in December 2021 and now clients can access the full suite of our trading services through our Japan team. Our ongoing investment in people and across our onshore platform allows us to bring our market-leading global product offerings and services, overlaid and refined by local expertise, to borrowers and lenders in the Japanese market. This local experience ensures that we are well-positioned to navigate market conditions more efficiently and provides a framework to deliver local market solutions that better support the nuances and needs of the Japanese market.

Garrett: Loose monetary policy in Japan, as well as rising interest rates set by the US Federal Open Market Committee, led to a further widening of the cross-currency basis spread between the US dollar and Japanese yen in 2022. Clients that were able to lend US treasuries against JGB collateral were able to benefit from the arbitrage opportunity. This strategy was given a jolt in December 2022 when the Bank of Japan announced a surprising increase to its 10-year bond yield cap to 0.5 per cent, which initially saw the basis narrow for several days before widening again. The ability to balance exposures between overnight and term trades is key to optimising returns in the face of potential future surprises from central banks.

Cheung: Central banks, including the Bank of Japan, are facing the difficult challenge of scaling back bond-purchase programmes without creating market turmoil. Inflationary pressures in the developed world, created by the liquidity from expanded balance sheets, were further intensified by supply chain disruptions, labour market shortages and the energy crisis. Japan's core inflation recently exceeded the BoJ's 2 per cent target and hit a 41-year high. The BoJ surprised markets in December by raising the upper limit of its tolerance band on 10-year government bonds to 0.5 per cent from 0.25 per cent, though it kept its ultra-low benchmark interest rates unchanged.

The magnitude of QE in Japan, relative to the overall economy, has been much larger compared to other developed countries. Moreover, the range of assets purchased — including corporate bonds, ETFs and equities — has been much broader. All of this suggests that market volatility is likely to follow once the BoJ starts to reduce its balance sheet and, consequently, liquidity in the financial system declines. However, increased market volatility will create opportunities for the lending business.

The recent selloff in global bond markets has pushed the 10-year JGB yield to the upper limit of the BoJ's range, forcing the BoJ to execute more bond purchases into the end of last year to defend its cap. The indirect impact on the SBL market would be the reduction of JGB supply in the market. Market functioning and liquidity have deteriorated with the BoJ's increasing presence in the bond market and its massive JGB purchases; this made it slightly more expensive to source JGBs for different types of funding trades.

Lenders and borrowers will need to manage inventory well to tackle potential volatility in JGBs. Maximising opportunities in pricing and trading JGBs correctly is one thing, but increasing collateral diversity away from JGBs when borrowing and lending UST or HQLA may be necessary. Ultimately, sourcing JGB collateral might not be as swift and as easy in future with the BoJ's proactive action.

Chua: Post-pandemic global inflation and interest rate divergence has driven a widening of the cross currency basis spread (in particular US$ and AU$ versus JPY). This has provided a strong revenue opportunity through 2022 for fixed income portfolios. We believe this will continue into 2023. The likelihood of higher interest rates in Japan should also present more opportunities for equity borrowing and fixed income lending. Expanding State Street's longstanding market-leading capabilities in yen cash collateral will be a focus for 2023, as well as further developing JGB trading to position for future opportunities.

In December 2020, Chinese regulatory authorities expanded the scope of products available to those who had a Qualified Foreign Institutional Investor (QFII) licence to include securities lending and short selling, among other amendments.

How do you assess potential for growth of securities lending activity in the Chinese market?

Garrett: The potential for growth in the Chinese market through physical securities lending remains extremely compelling. However, the current operating models offered through Stock Connect or QFII still present idiosyncratic challenges. The most obvious hurdle for the offshore lending community is the lack of inclusion of agent lenders in the regulatory frameworks. Without the infrastructure and expertise provided by an agent lender, it would be extremely challenging for beneficial owners to access those platforms.

For the QFII model in particular, many challenges persist for both agent lenders (fixed fees and tenors on the main board, collateral retained at the CCP, untested default process) and for borrowers (uptick rules, onerous margin requirements, short settlement cycles). To address these issues, industry engagement with regulators through associations like PASLA and ASIFMA is of paramount importance. In 2023, the post-pandemic easing of travel into mainland China will be beneficial to this goal.

Lai: We would note other positive related announcements — for example, notices regarding insurance funds participating in securities lending markets. From a J.P. Morgan perspective, this has facilitated more dialogue

internally and externally and we are excited about this workstream. The potential for growth of securities lending activity in the Chinese market is unprecedented. China simply cannot be overlooked.

While the benefits of Chinese shares being included in various global indices have been previously discussed, the Chinese market stands poised to benefit from the expected increased liquidity that will flow to the region this year. Without revisiting previous articles and material, I expect the industry to remain focused in this space, with the initial priority once again to look at the role that an agent lender can play in this process.

What expectations do your APAC clients have from you as a service provider in supporting their commitment to sustainable lending and borrowing?

Chua: ESG-compliant solutions for securities lending activity remains a topic of interest among clients, but no clear agreement has emerged around implementation or compliance. Current ideas revolve around proxy voting, collateral eligibility and cash reinvestment guidelines.

Floate: This topic has mainly been relevant for our buy-side lending clients that have mature ESG principles implemented across their core investment portfolios. They view securities lending as an ancillary activity and look to us, acting as their agent, for two things.

Firstly, to ensure that we meet their core objectives — for example, not accepting a security that does not meet the ESG criteria of their main investment portfolio as collateral. Secondly, to provide them with elements of ESG adherence that only we can implement as their agent. For instance, ensuring a proper recall mechanism is in place to enable them to exercise proper governance and vote at key general meetings.

Lai: J.P. Morgan Agency Securities Finance remains fully committed to serving our global clients in all aspects of their securities lending programme. In terms of sustainability, our approach centres on the provision and use of various tools to define individual requirements and outline a tailored programme. For instance, in the concept of proxy voting, our platform offers clients the ability to set requirements based on criteria such as meeting type, market and asset type.

In terms of non-cash collateral, clients are provided with multiple levels of eligibility restrictions. Our continuing investments in our technology platform helps us to support our client's ESG requirements. It would be presumptive on our part to believe that recent market conditions and geopolitical stresses have not had some impact on the demand for ESG-compliant lending solutions. The material in the public domain is a testament to this. The offerings we provide at J.P. Morgan reflects the diverse nature of our global client base.

How do you assess the outlook for APAC securities lending markets for 2023?

Cheung: We see a great opportunity for Hong Kong in 2023 in an improved macro environment, after its links with the mainland

were re-established on the border reopening on 8 January this year. We think the Hong Kong IPO market will perform strongly in 2023, with positive momentum from the beginning of the year and signs that the technology crackdown is coming to an end. A revival in IPOs and placements in Hong Kong will be helpful to the growth of the lending business this year.

China's reopening would also help export-driven North Asia, especially technology names that have China exposure. South Korea and Taiwan, for example, have a reputation as "early-cycle" leaders in a demand recovery. Some of the semiconductor names are already up 10 per cent year-to-date. Volatility around capacitors and semis will remain and SBL activity will still be active in Taiwan, like in 2022. Another Taiwan sector likely to remain in focus is shipping. Normalisation in global trade could bring inflated revenue for the sector back to normal. Geopolitical risk related to Taiwan would surely add instability to the market.

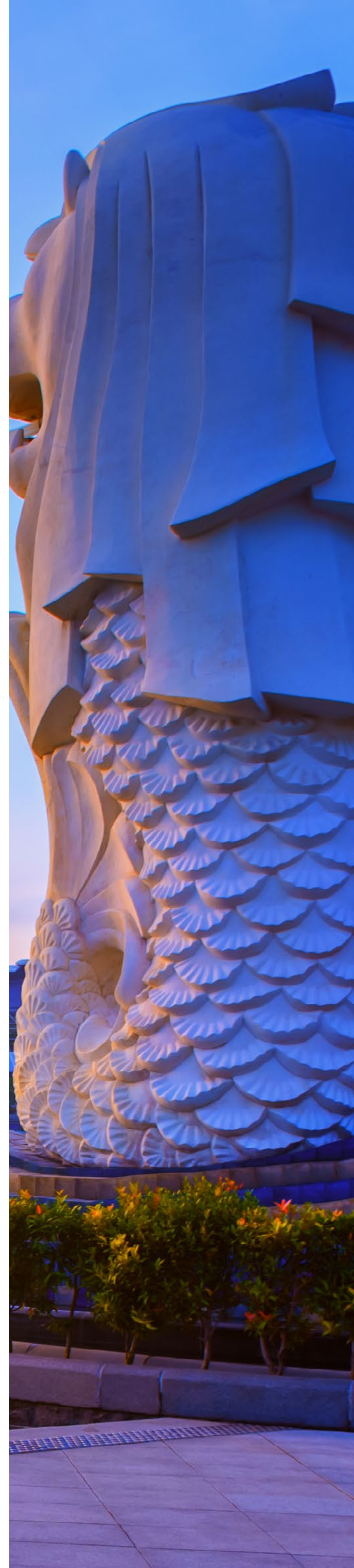
Given the current pace of Fed rate hikes, the strong US dollar and the massive capital outflow in 2022, it might take some time for emerging markets to stabilise. Consequently, EM regulators might not lift their short-sell bans and restrictions completely in the first half of the year. However, we do see a chance of that happening in the second half of the year when markets stabilise. Brokers perceive South Korean stocks to be the top "rebound candidate", given their low valuations. Given the bumpy road ahead, we believe market flows in the securities finance space will be active.

With brokers shifting their borrowing needs to synthetic business with lower balance sheet constraints, and with the internalisation of prime brokers' own books, markets like Japan and Australia have not been as active in the physical borrowing space. While seasonal names still generated volatility and borrow activities across Japan, specials activity in Japan has become less and less. None of the top-10 ranked APAC specials included a Japanese name in 2022 and 2021, whereas Japan occupied 30-40 per cent of the top names in previous years.

The lack of specials borrowing in the physical markets is also illustrated by a reduction in the average fee for Japanese loans to around 47-52bps for the past few years, compared with more than 80bps in 2019. APAC markets are unlikely to see a meaningful revenue uptick in 2023 unless there is another big deal or corporate action event trade like BHP in Australia. As always, it is all about those specials!

Lai: APAC securities lending markets will almost certainly experience some headwinds in 2023. We are not immune to the slowing pace of growth globally and are likely to be impacted if markets appear to be heading into a recession. However, we do expect some to be outliers to this trend. China's reopening will help to boost market sentiments across the APAC region. We expect corporate earnings to increase in Hong Kong as the outlook for the economy improves. We also expect to see a resumption of IPOs and corporate activity, supporting a return to previous market performance as the city continues along its path to recovery.

There is speculation within Japan that the BOJ will shift its monetary policy in Q2 to counter inflation, while the declining USD and



JPY exchange rate will continue to create opportunities across fixed income and equities. More generally, balance sheet optimisation will remain our focus in 2023, along with the development of more sophisticated solutions to support evolving client requirements in this space regionally and globally.

Chua: We are optimistic for growth in APAC SBL markets this year, driven by the reopening story in China and Hong Kong. The outlook for the Japanese economy and related equity finance activity will be heavily impacted by how the Bank of Japan adjusts monetary policy in 2023. We believe that cross-currency basis transactions will remain popular, although spreads will compress as interest rate divergence eases.

The Korea regulator has added resourcing and increased oversight cadence into SBL and short selling activity conducted by foreign banks and broker dealers. This greater intensity seems to demonstrate regulatory and political support for short selling, albeit with enhanced penalties and stronger safeguards. Any moves to loosen current short selling restrictions (currently limited to 350 issuers, imposed in 2020) is likely to strengthen demand and improve market returns in 2023.

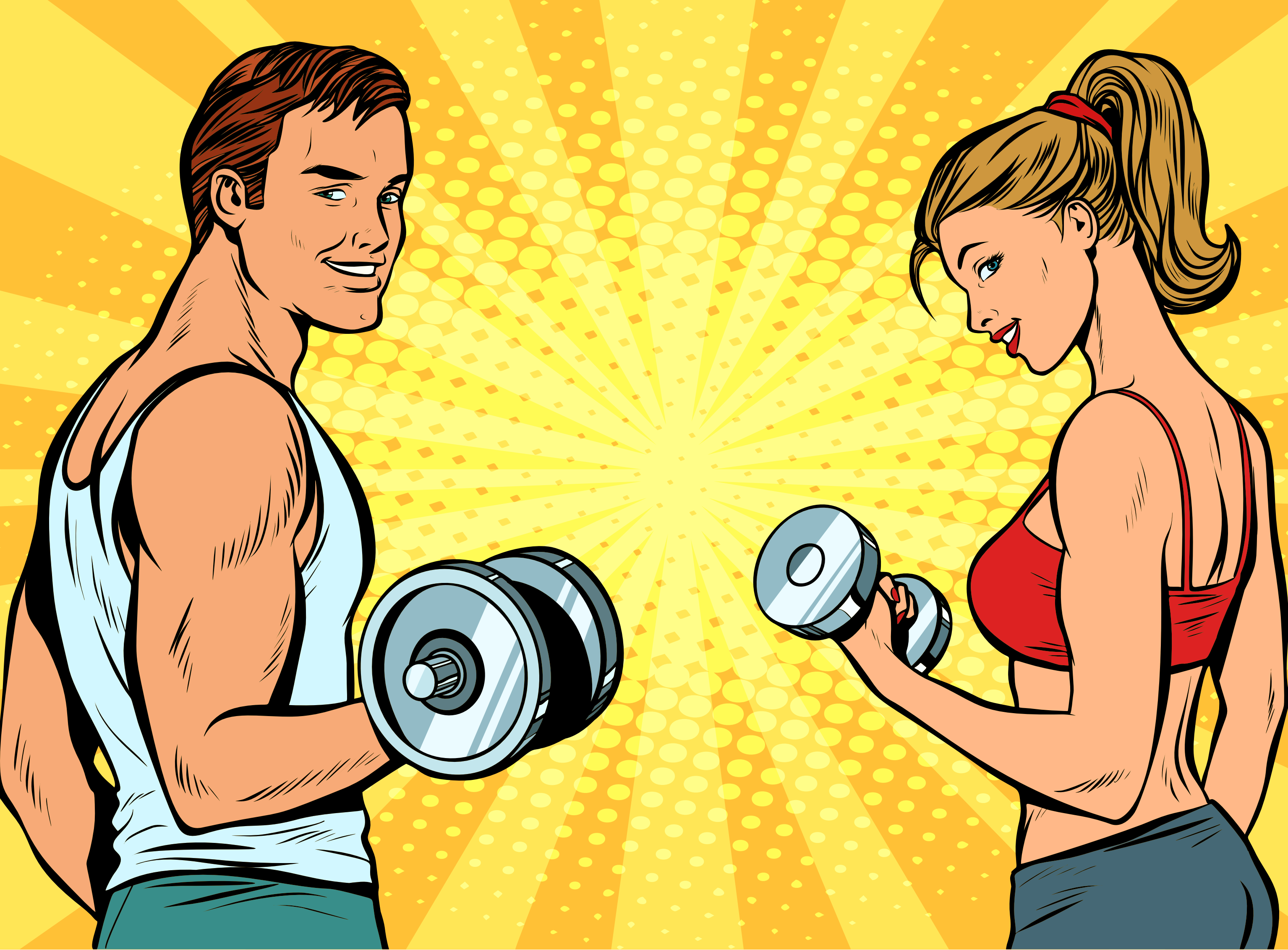
As the opportunity cost for deploying cash increases with interest rates, we also expect the trend for non-cash collateral usage to continue. Lenders, on the other hand, will continue to demand high-quality collateral such as Australia government bonds, on top of the traditional cash, USTs and JGBS.

Garrett: Looking ahead, there are good reasons to be optimistic. We expect to see a marked increase in trading opportunities within APAC as the drag on the performance, seen through 2022, eases. China's easing of its Zero-COVID policy — and recent constructive political interaction signalling potential for de-escalation of the US-China trade war — could be positive for APAC stock markets which have already been buoyed by these developments. Counterintuitively, strong performing markets will allow for increased exposures on the short side, as well as the long side, as stock prices decorrelate.

The start of 2023 has seen several companies raising capital through secondary offerings, and this could bode well for event-driven lending activity in the region.

Floate: We identify a positive outlook for 2023! We are uniquely positioned in Asia Pacific, as we are in a region which still has a broad mix of developed and developing markets. We were recently reviewing a table of Asia Pacific market specificities for the upcoming training session of the PASLA conference (first day). We found that even those who have worked in the region for many years were struck by the market-to-market nuances and differences between regulations, reporting requirements, pre-trade requirements and exchange requirements.

With these differences, we have a broad mix of activities daily — for example, Hong Kong or Japanese equity trading that we know well, while also working to help open some of the lesser developed markets to securities lending. This latter element brings variety as we work with exchanges, regulators and tax offices and then with our internal product and functional teams to bring something new to the market. In my view, nothing beats doing a new type of trade for the first time in finance. ■



Toning up in the collateral gym

In the first of two articles on collateral management strategy, Bob Currie examines advances in collateral optimisation and electronic negotiation of collateral schedules

The prominent challenges in collateral management have changed relatively little over several decades. Firms labour to reduce collateral fragmentation across product silos and geographical locations. They invest to improve optimisation, to unlock underutilised collateral pools and to enhance collateral mobility. They work to eliminate STP breaks and settlement fails, while minimising the risk of post-trade disputes. And, more generally, they work to deliver an integrated front-to-back process from trade initiation across the contract lifecycle.

While the song remains broadly the same, the tempo has become distinctly more lively. Regulatory drivers, macroeconomic conditions and geopolitical uncertainties have each played a role in forcing firms to upgrade their collateral ecosystems and take an enterprise-level view of their collateral inventory and financing requirements.

Regulatory changes are forcing a new community of firms into the collateral world and requiring established players to minimise balance sheet cost and remove operational drag. With an expanding range of firms required to manage initial margin (IM) and variation margin (VM), as they have fallen into scope of Uncleared Margin Rules (UMR), these firms are looking for automation, better inventory management, as well as innovative new ways of managing these priorities.This is bringing new utilities to the market and presenting exciting opportunities for triparty and for other specialist vendors in the collateral gymnasium.

Comprehensive rethink

Sophie Marnhier-Foy, global head of product marketing at Adenza, indicates that the conjunction of higher volumes of UMR compliant

trades, rising interest rates and increased standardised initial margin methodology (SIMM) weights and correlation has created a perfect storm for companies that are impacted.

In many cases, firms did not initially gauge the full impact of the UMR — partly as a consequence of the progressive compliance rule, where only new trades are in scope of the new regulation, and partly the result of UMR thresholds, where firms only came into scope when their aggregate average notional amount passed a specified level (for example, US$50 billion under Phase 5, US$8 billion under Phase 6). By the time that they recognised the full impact of this regulation, suggests Marnhier-Foy, it was often too late to quickly adapt their approach.

Eric Badger, BNY Mellon's global head of sales and relationship management for clearance and collateral management, notes that, in the not-too-distant past, collateral mobility was limited and optimisation was principally a back-office function, essentially encompassing only a cheapest-to-deliver methodology. In contrast, optimisation is now more front-office focused, entailing complex decisions across a wide range of variables that extend beyond just security type, eligibility and counterparty.

In making this point, Badger reminds us that optimisation tends to be interpreted differently depending on where a firm sits in the trade lifecycle. "Traditionally, our focus has been on post-settlement optimisation," he says. "However we are well beyond the days of a one size fits all approach. Clients utilise a combination of our data driven and automated services in combination with vendor solutions and their own technology capabilities."

For J.P. Morgan's head of collateral services for EMEA Graham Gooden, there is no doubt that optimisation as a discipline has advanced a long way over the past five to 10 years. "When we first ran our collateralisation optimisation engine in the early 2000s, it took up to a day to run the algorithm to completion," he says. "We are now on our fourth or fifth generation optimisation engine and this is embedded in the triparty platform, providing optimisation of a client's collateral inventory in close to real time."

Client requirements may differ substantially across buy- and sell-side firms regarding how they use this optimisation capability. "Some users send details of their collateral inventory and collateral eligibility schedules directly to J.P. Morgan — via API or as a data file using secure FTP (SFTP) — using our optimisation services to provide analysis, often to a highly granular level, of how best to allocate these collateral holdings against their risk exposures and trading objectives," says Gooden.

Other clients may use a hybrid approach, where they source collateral and valuation services from one or multiple vendors, as well as using J.P. Morgan as a collateral agent. "In this situation, we may receive the data file directly from the vendor," says Gooden. "We have done a lot of configuration work with the leading collateral management vendors — in terms of managing eligibility schedules, data reconciliation etc — and this ensures good STP rates and high levels of operational efficiency in supporting these hybrid arrangements."

Looking across the industry, BNY Mellon's Badger notes that clients are at substantially different stages of their optimisation journey. Some firms are already well advanced with central funding and optimisation teams and have the requisite technology in place to support it. Others are earlier in their journey, bringing different trading desks together and investing in modernising their systems.

This challenge is typically more complex when optimisation needs to be applied across multiple legal entities and products. Clients also differ significantly in terms of the constraints that they face, with some firms having more difficulties than others in bringing internal data and systems together.

For Adenza's Marnhier-Foy, UMR has not just been a compliance exercise. "It changes the collateral ecosystem and requires proactive optimisation," she explains. However, this again raises the question of what we mean by optimisation. There are many factors contributing to a final increase in funding costs. Some, she suggests, are exogeneous and cannot be controlled — for example, market volatility affecting the SIMM backtesting and resulting in higher margin numbers, or regulatory scrutiny of procyclical factors which may have a domino effect on margin methodologies, including SIMM.

However, other parameters can be both controlled and anticipated. This confirms the benefit of an holistic approach to risk inputs, margin exposure and collateral funding costs across a firm's portfolio. "An optimal optimisation process is not conducted ad hoc utilising isolated factor inputs," she says. "Rather, it requires a logical series of simulations, pre- and post-trade, for live and legacy portfolios."

In delivering this methodology, Marnhier-Foy believes that the primary advances will not be made simply by rolling out new tools. Rather,

this demands a comprehensive rethink of the collateral paradigm and its related IT ecosystem. The final implementation phase of UMR, alongside the new ISDA SIMM 2.5 parameters, might be an ideal trigger for this development.

Macro backdrop

After an extended period of low interest rates and abundant liquidity supported by central bank asset purchase programmes, H2 2022 and the initial months of 2023 have delivered rising inflation and monetary tightening, with the expectation that central banks will step up the unwind of their asset purchase programmes (APPs) as the year progresses.

“In this environment, we have been focused as a service provider in helping triparty clients to make the most effective use of their collateral inventory, helping them to optimise collateral allocation and to minimise the friction associated with collateral transfers,” says J.P. Morgan’s Gooden.

Against a background of high price volatility and strong SFT trading volumes, one feature has been a need to ensure high standards of operational efficiency across the SFT transaction lifecycle, including collateral settlement.

The market noted a sharp rise in gilt repo volumes during late September and early October, particularly following the spike in gilt yields after the UK mini-budget on 23 September. However, Gooden indicates that the bank did not experience a significant rise in settlement fail rates. “The SFT transaction value chain and collateral settlement procedures are highly automated, and these high STP rates have been important in minimising settlement fails during recent periods of high market volatility and spikes in trading activity,” he says.

However, if we consider a longer timeframe, taking in the uncertainties created by Russia's military action in Ukraine, there is evidence of disruption to settlement efficiency in some parts of the market. Gareth Jones, CEO of Euroclear GlobalCollateral, recounts a reduction in settlement efficiency “by a couple of percentage points” at the end of 2021 and this declined further with the Russian invasion of Ukraine in February 2022. Although settlement efficiency had improved by Q4 2022, it had not returned to where it was in the first half of 2021.

Speaking at a Securities Finance Times Technology Symposium at the end of 2022, Jones explained that “the reduction in settlement efficiency is typically associated with volatility and higher trading volumes, but this has been sustained for a while, which indicates that there is some scarcity of collateral and securities liquidity out there.” Against this background, Jones indicates that Euroclear’s specialist borrowing programmes — GCA for HQLA and Autoborrow, which are linked to the firm’s settlement algorithm — recorded record volumes over the period.

Reflecting on this experience, the European Securities Markets Authority (ESMA) notes how recent stresses linked to liability-driven investment (LDI) strategies that invest in GBP-denominated government bonds illustrate how quickly liquidity risks can crystallise. This sharp rise in gilt yields in late September and early October, in the wake of the UK mini-budget, accentuated liquidity pressures on heavily leveraged LDI funds. Margin requests surged on repo transactions collateralised by government bonds and interest-rate derivatives.

LDI funds attempted to sell sovereign bonds in their search for liquidity but the market was unable to absorb this volume of bond sales, prompting the Bank of England to intervene to support the sovereign bond market via a targeted short-term asset purchase programme.

With these developments, ESMA indicates in its recent Trends, Risks and Vulnerabilities Risk Monitor report (ESMA,10 February 2023) that its systemic stress indicator, a refinement of the ECB composite indicator of systemic stress, has hit levels higher than those witnessed during the pandemic, particularly owing to these high volatility levels in EU sovereign and corporate bond markets.

From this experience for LDI funds, a number of firms now recognise just how constrained they were with manual processes and the risks presented by these pinch points, observes HQLA^{X} systems architect Martin O’Connell. This presents major opportunities for vendors — opportunities that do not tend to come along very often. “It is clear from this experience that firms need to invest in automation,” he says. “This is evident from successive years of regulatory adaptation and the investment that is necessary to eliminate the operational risk presented by manual processes.”

For BNY Mellon’s Badger, bouts of market volatility, headline defaults and the shadow of global macro uncertainty has in many ways reinforced the core value of the triparty collateral management service which mitigates counterparty credit risk and provides operational efficiencies.

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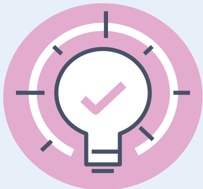

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range of funding sources to prepare for rising costs, increasing volatility, and to offset the risk of potential liquidity challenges with existing partners and channels. This is amplified by regulatory frameworks that put greater pressure on dealer balance sheets globally.

"We continue to observe a growth trend in collateral markets globally, including support for derivatives margin and repo activity," he says. "The uncleared margin regulations have helped to grow our collateral network beyond its core financial institution base to include traditional and alternative asset managers, sovereign wealth managers and insurance companies."

BNP Paribas has been offering collateral management services as a middle-office collateral manager since the early 2010s, initially focusing primarily on OTC derivatives margining. "As the success of the franchise has grown, it became apparent that we needed to support our clients beyond bilateral collateral," says Jérôme Blais, co-head of triparty collateral services at BNP Paribas Securities Services. More and more clients — especially on the buy-side — highlighted their growing appetite to have access to a triparty collateral solution for securities finance and derivatives transactions, while retaining the benefits of the full service package that BNP Paribas already offered as an asset servicer.

"We recognised at an early point that the sell-side was seeking two primary goals," says Blais. "One was to access additional liquidity providers that are using BNP Paribas as a custodian and depository bank. The second is to leverage triparty collateral management and benefit from enhanced efficiency, increased automation and reduced operational risk."

"This was a natural move for BNP Paribas as a service provider with a longstanding global footprint with both sell- and buy-side players," he says.

With an expanding community of firms now required under UMR to post IM and VM against their derivatives exposures, Gooden indicates that J.P. Morgan has built on the investments it has made in its triparty solution to enhance its service provision for the derivatives market.

"Confronted by high levels of pricing volatility and concerns around collateral scarcity, clients have been exploring opportunities to mobilise a wider range of collateral types to cover their SFT and derivatives exposures," explains Gooden. While some UMR counterparties continue to use cash to meet their variation margin requirements, others are mobilising a broader mix of securities to meet both IM and VM requirements, including more extensive use of corporate bonds as collateral.

"Buy-side firms have been well-established users of triparty services for many years as cash providers through repo transactions," adds Gooden. "With UMR, a growing number of buy-side firms are now using triparty to help them to post IM in line with their UMR obligations. Through our triparty service, this enables firms to reuse collateral that

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they receive through repo transactions and to repost UMR-eligible securities as collateral to derivatives counterparties."

"This has created new efficiencies for buy-side clients, leveraging our triparty solution to support their financing relationships and adding the ability to post collateral bilaterally to UMR counterparties," says Gooden. "Bringing these two areas together creates valuable gains for buy-side firms through rehypothecation and other efficiency benefits."

Similarly, Blais indicates that BNP Paribas is helping more and more buy-side clients to access triparty collateral management — firms that would have struggled to do so otherwise. "It can be a massive challenge for the buy-side in general, and for asset managers in particular, to engage with a separate custodian simply to enrol into a triparty collateral programme," he says."Our buy-side clients can now enhance their collateral operations using our triparty collateral services as part of the full BNP Paribas suite of services to which they are already connected."

Blais also indicates that the bank's positioning as a multi-local and global player has been important in helping its clients to adopt the solution more easily. "In the case of UMR, for instance, our clients were quick to see the benefits of holding their collateral in their domestic market, being able to segregate their collateral under local law and to maintain their relationship with their domestic BNP Paribas branch, while benefiting from the product coverage of a global player."

Electronic collateral schedules

One parallel area where there has been significant progress is in creating electronic representations of collateral schedules and enabling collateral schedule negotiation to be managed digitally. "We have evolved from word-based agreements, written in a text editor or spreadsheet, to supporting digitised eligibility templates via an online portal," says J.P. Morgan's Gooden.

J.P. Morgan is also working with triparty clients to communicate collateral eligibility directly using APIs, enabling data transfer directly between collateral management systems. Collectively, these mechanisms offer machine-readable collateral schedules, improving STP rates and reducing the risk associated with counterparties managing collateralised lending relationships using outdated eligibility schedules.

These developments have allowed triparty clients to adopt a more granular focus in terms of how they allocate collateral across specific counterparties — optimising their collateral inventory on an ISIN by ISIN basis, for example, with the ability to refine these collateral preferences intraday if they wish to.

BNY Mellon released a digital collateral schedule platform, known as RULE, in 2019, aiming to replace labour-intensive paper-based collateral negotiation processes that previously took weeks to finalise.

The RULE platform is designed to allow counterparties to negotiate schedules and receive feedback electronically in real-time, thereby enhancing operational and trading workflows.

“The platform has had a transformational impact on how our clients interact with each other,” says Badger. “Nearly all collateral schedules are created and executed electronically, which enables clients to react quickly to changing market conditions and risk appetite, and schedule amendments to existing rule sets are implemented immediately after electronic execution. There is an electronic audit trail and RULE has made it much easier for the schedules to be shared internally with Treasury and Risk stakeholders.”

This platform played a key role in helping the bank to implement the latest phases of UMR, Badger explains, “streamlining the onboarding process, cutting the negotiation time down to days and even hours in some cases, allowing BNY Mellon to successfully open thousands to meet the regulatory deadlines”. New features are consistently being added to this platform, he notes, such as the introduction of APIs and the ability to make bulk amendments.

Clearstream has developed an artificial intelligence-based collateral eligibility negotiation and screening tool in collaboration with Brussels-based fintech Intelli-Select.

As we outlined in greater detail in October 2022 in an interview in SFT 314, 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.

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 Marton Szigeti, Clearstream’s head of collateral, lending and liquidity solutions (also interviewed in SFT Issue 319, 24 Jan 2023). “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.”

“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 Intelli-Select co-founder and CEO Bart Coppens.

Through applying KRR, Coppens indicates that the platform is able to identify the user’s collateral eligibility criteria and exclusions through applying automated reasoning, significantly improving the speed and efficiency of creating and applying collateral schedules. By identifying 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.

For Jérôme Petit, EMEA market specialist manager at Adenza, transparency across the firm is key to managing collateral requirements efficiently. For example, the collateral schedules, the collateral inventory and the cost of funding all need to be clearly visible to the front office. This requires tools plugged into the trading application to deliver the necessary data — for instance pre-trade analytics and what-if margin analysis, along with tools to understand the impact on the firm's credit risk.

More broadly, the engine needs to be flexible, such that it can be configured to meet the different associated workflows, supporting the lifecycle for different types of objects, trade and settlement messaging, the payments and the collateral movements, along with associated dashboards to monitor and manage these workflows. As far as possible, these workflows should be automated so that firms can focus on managing exceptions and STP breaks. “It is key to have this STP connectivity front-to-back across the trade lifecycle and to counterparties and utilities,” concludes Petit. “We also need to look for scalability. Adopting an integrated front-to-back solution is key to optimising inventory and ensuring optimal collateral decisions.”

Divyesh Bhakta
CEO
FinOptSys

The FinOptSys journey: not all fintechs are created equal

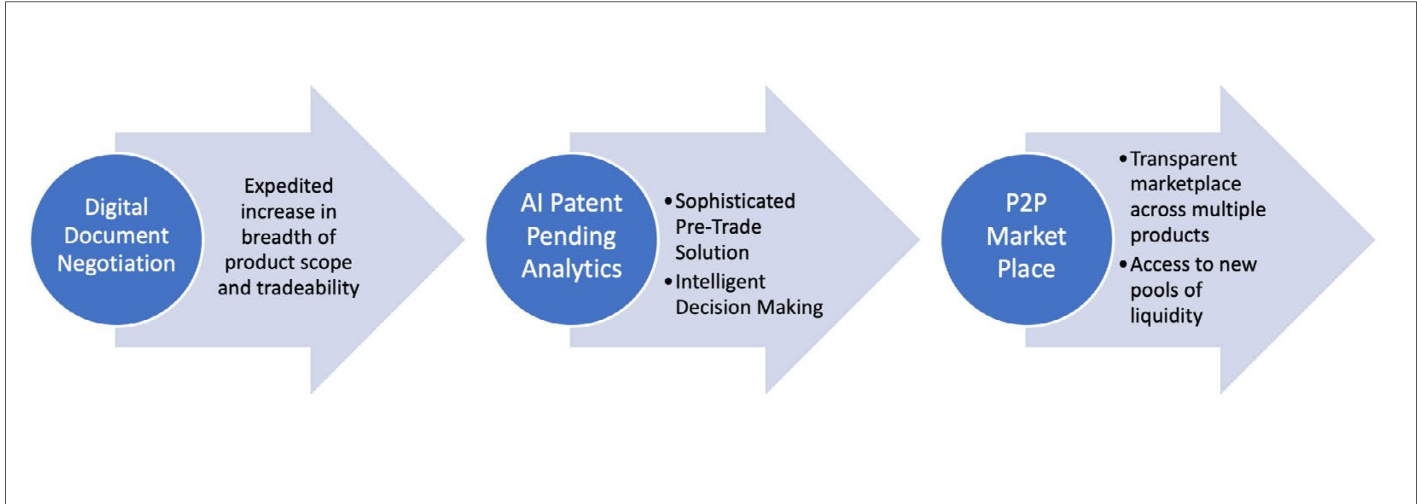
Divyesh Bhakta, founder and CEO of FinOptSys, reveals the firm's road to innovation through key partnerships, product offerings and combating challenges to build the core pieces of its platform

Fintech companies typically start with a common goal of creating technological solutions for existing inefficiencies. However, the road to innovation and a successful implementation can look vastly different for every organisation. The journey for FinOptSys has been a compelling one, which has incorporated dynamic innovation, perseverance and momentum building — all of which have proven to be accretive to an expanding client base and their evolving needs. At the core of this growth, there must be an indelible desire to make a difference in the industry and create a culture of core values and ethical practices.

Founded in late 2019 by market practitioners for market practitioners, FinOptSys is challenging the status quo and transforming the securities financing business globally. FinOptSys is a state-of-the-art cloud-based software-as-a-service (SaaS) platform that combines artificial intelligence (AI), machine learning, analytics and patent-pending algorithms to power peer-to-peer (P2P), across the entire spectrum of securities financing products (securities lending, repos, swaps) and collateral — including nontraditional and digital assets.

Originally created for the buy-side community to empower clients and enhance their collateral management activities, FinOptSys sought to build and provide an interactive P2P platform that would augment transparency, improve price discovery and increase liquidity in the marketplace. Then the world came to a halt during the global pandemic. This presented a unique challenge to growing the business, especially not having the required facetime and interaction to demo the platform to the buy side. Where there is adversity, there is also opportunity and FinOptSys used this time to expand and enhance its product offerings into a comprehensive, enterprise-wide solution.

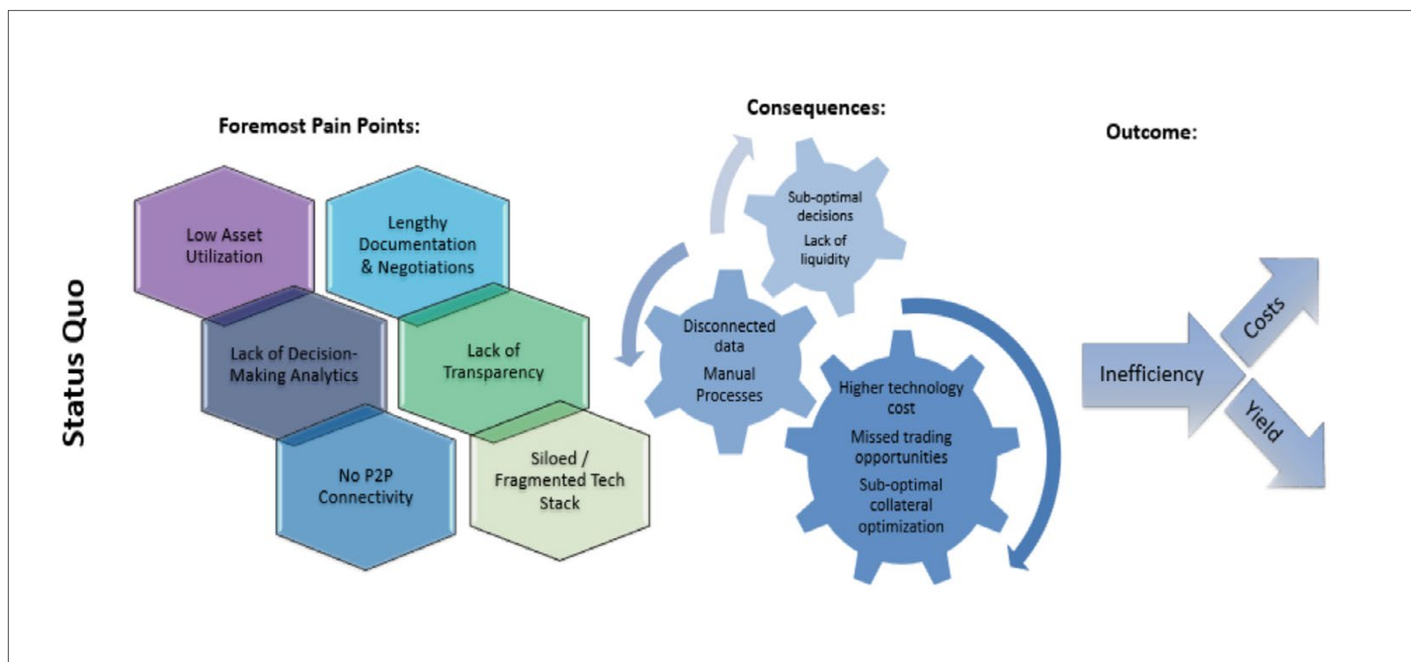
This inflection point led to greater innovation on the platform vis-à-vis expanding the breadth of client types and enhancing a real-time analytics suite, thereby increasing client optionality, improving actionable decision-making and allowing firms to proactively manage their financial resources more efficiently. In addition, the creation of a document negotiation module using AI and machine learning allowed users to review, analyse and agree to legal contracts in a fraction of the time from normal convention. The FinOptSys platform transformed into a holistic securities financing solution for clients of any size, with very clear links within the value chain.



FinOptSys clients were now able to manage their balance sheets proactively and have access to a financial resource management platform that decreased cost, increased yield and asset utilisation, while also connecting to new sources of liquidity. During a pivotal period where product sales growth and financing stagnated due to global and industry challenges, FinOptSys focused on intense product development, and fostering change to meet the needs of the client, by providing a complete enterprise-wide, securities financing solution. Modular in nature and seamlessly sitting on top of any existing systems, clients can focus on how FinOptSys will complement their existing infrastructure, as opposed to what will need to be replaced. Emphasis on improving existing pain points, with up to 30 different modules to choose from, allows customers to move away from the status quo within the securities financing business.

showed every facet of the platform, Zimmerhansl and Arnesen were actively looking for gaps in the system that were not considered. They were unable to 'break' the platform and agreed that — regardless of which discipline you come to securities finance from — FinOptSys can "cover your needs and a whole lot more". This helped to further validate the FinOptSys strategy and vision.

FinOptSys had built the core pieces of a comprehensive securities financing solution, addressing multiple pain points. Creating the product is essential, but so is listening to your customers and having a core team of experienced market specialists and technology experts that can foster a culture of efficient collaboration. This is the FinOptSys way and it helped build significant momentum in a short period of time.



The status quo is exacerbated by legacy systems and an inadequate technology stack to keep pace with dynamic trading requirements and evolving regulatory changes. FinOptSys enabled clients to approach their securities financing business through a holistic lens and reverse the inevitable outcomes of the status quo.

In late 2021, the breadth of the product offering for FinOptSys was very robust. Target clients were impressed and a true endorsement of the platform occurred during a demonstration for securities financing practitioners Roy Zimmerhansl and John Arnesen. As FinOptSys

In 2022, this momentum led to the official announcement of a key partnership between FinOptSys and State Street with the launch of Venturi, a global P2P repo financing marketplace. This significant achievement and milestone for both firms not only enables buy-side institutions to expand their financing options through participation in an increasingly transparent and growing P2P ecosystem, but also allows them to do so with trade-level indemnification.

As global institutions' appetite for P2P securities financing continues to grow, this marketplace partnership will allow lenders

and borrowers to transact directly, without the need for traditional banks and broker dealers, if they so desire. Venturi aims to inject greater liquidity into the marketplace and provide an attractive, alternative financing mechanism for investors, borrowers and beneficial owners, including pension funds, asset managers and insurance companies.

In alignment with State Street's commitment to P2P, FinOptSys provided innovative and patent-pending AI analytics to power a P2P platform, which will enable programme participants to tap into an unprecedented level of connectivity and marketplace efficiency in securities financing. The commitment FinOptSys made to strengthen its platform capabilities during adverse times resulted in a more 'ready-to-go' and impactful solution for market participants when the State Street partnership was forged.

Future today

The core of FinOptSys' promise to clients is to deliver solutions for the future, today. FinOptSys was able to carry the momentum into 2023 by forming a strategic partnership with S&P Global Market Intelligence to help deliver securities financing market data and services, including an extended range of analytical tools.

Clients demand greater transparency, and so by combining the two platforms, both firms' clients will have the much-needed transparency in the equity and fixed-income securities financing business to make informed decisions within their organisations. This will lead to higher yields, lower costs and increased asset utilisation for clients.

By utilising streamlined workflow, this solution allows users to access the securities financing market through a P2P marketplace that provides point-to-point negotiation capabilities, along with features including trade level indemnification, compliance, counterparty and collateral eligibility checks, as well as restricted list feeds. Investing in data helps clients to gain valuable insight, leading to informed investment decisions. This partnership further strengthened the breadth and robustness of the FinOptSys platform.

With key strategic partnerships and growth prospects in place, FinOptSys was better positioned to turn its vision of transforming the securities financing business into a profitable long-term strategy. Earlier this year, FinOptSys completed its first tranche of Series A funding with backing from State Street. One of the primary focal points of capital deployment is to add further innovation to its current suite of modules, as innovation is an iterative process.

FinOptSys plans to not only revolutionise and standardise the securities financing industry, but also to form the foundation to deliver market efficiency, connectivity, liquidity, revenue generation, risk management and transparency to the broader financial markets.

Developing the right corporate culture is crucial for efficient product development, ethical decision-making and execution of business objectives. FinOptSys' culture reflects its identity and is deeply rooted in talent attraction and retention, team and partner building and living its core values day-in and day-out.

From its early days, an integral core value for FinOptSys has been about giving back. In living its principles of giving back, FinOptSys welcomed military veteran owned and operated investment bank Drexel Hamilton onto its platform. Creating this cornerstone partnership goes beyond providing Drexel Hamilton with the capabilities to support and scale its specialty finance business. It opens the door for future initiatives with Drexel Hamilton to support its social mission of hiring, mentoring and providing opportunities for US veterans within the financial services sector.

Every fintech journey is different, with multiple challenges along the way. The path for FinOptSys has been anchored in holistic platform development across multiple products, for various client segments. The impact of using AI analytics to power a P2P marketplace will not only increase liquidity and transparency, but will also transform the securities finance business into a more efficient industry.

This is only the beginning of the FinOptSys journey. Solving for today's inefficiencies is a good start, but the FinOptSys promise to create solutions for the future, today, is paramount to success and sustainability. Navigating the regulatory landscape, preparing for same-day settlement, incorporating digital assets into the balance sheet — these are the realities of the future for all market participants. The team of experienced market practitioners at FinOptSys have not only identified these future realities, but have been preparing to address the challenges through continued innovation of their product suite.

FinOptSys is empowering industry participants of today, with the necessary arsenal to solve for what's coming tomorrow!

Latest industry moves at AXA IM, MUFG and BNP Paribas

BlackRock has appointed Emma Cooper as global head of repo after 13 years with the firm.

Based in London, Cooper has had a longstanding career at BlackRock, first joining the global asset manager and technology provider as a G10 futures and interest rate swaps trader.

Cooper has taken on a number of senior positions since then, becoming senior fixed income securities lending and repo trader in 2013 and later taking on the role of head of fixed income repo trading for EMEA in 2016.

Prior to joining BlackRock, Cooper was a repo trader at Barclays Global Investors Finance.

AXA IM appoints Quorrich as head of liquidity solutions

AXA Investment Managers has welcomed Mohammed Quorrich as head of liquidity solutions.

Based in Paris, Quorrich will report to Yannig Loyer, head of trading, securities financing and derivatives.

He enters the role from his previous position as deputy head of group investment solutions at AXA Group.

Prior to joining AXA Group in 2014 as senior credit strategist of emerging markets, Quorrich held a five-year term at Shanti Asset Management, most recently as lead portfolio manager for absolute return emerging markets debt fund.

Pirum Systems has expanded its board with the appointment of Neal Anderson as chair.

Anderson brings extensive experience to the role in leading and growing businesses, with expertise in developing strategy, scaling and driving digitalisation with enterprise customers.

He will take over from Donal Smith, who has held the position of chairman at Pirum for the last eight years. Smith will continue to work closely with the business in a board advisory capacity.

Anderson joins the firm from a 25-year term with Wood Mackenzie, a research, data and analytics provider to the global energy and commodities industries.

He held a number of senior positions during his term with the company, including his most recent role as president and CEO.

Commenting on the announcement, Pirum CEO Phil Morgan says: "Neal brings significant experience in scaling businesses as we continue to grow across multiple products and geographies. I would like to thank Donal for steering Pirum so adeptly as a chair through a period of significant growth and evolution."

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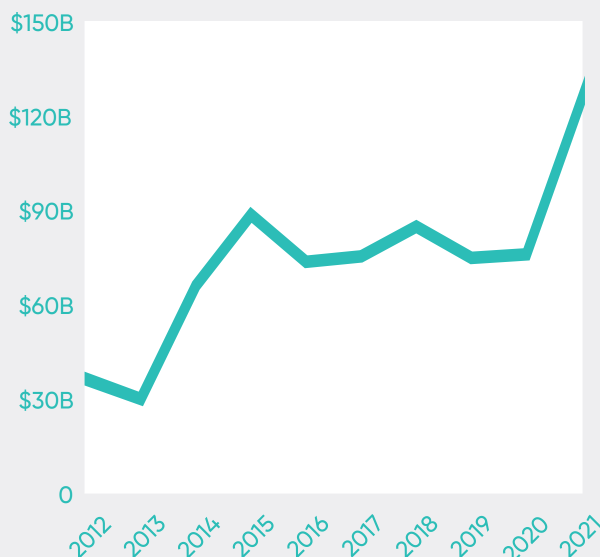

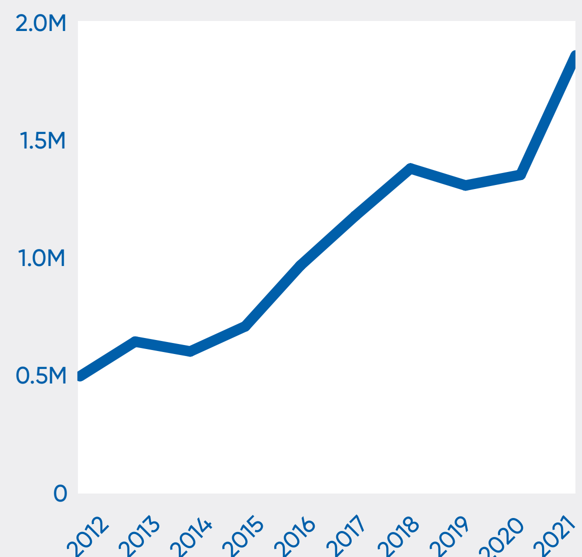

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French international banking group BNP Paribas has appointed Frank Manfredi as securities lending trader.

Based in New York, Manfredi will join the firm's equity financing team where he will focus on exchange-traded fund (ETF) distribution.

In this role, he will report locally to Bruno Miguel, head of equity financing, Americas.

Manfredi joins BNP Paribas from Mizuho, where he was previously securities lending trader during his time with the firm between 2020 to 2023.

Prior to this, Manfredi took on a number of analyst roles at Robinhood and BNY Mellon.

Technology firm Duco has appointed Lee McCormack as senior manager of partners.

McCormack will not only aid the firm to build and scale its partnerships with large global institutions, but will also help build a "powerful ecosystem" to help deliver customer success, says Duco.

Based in London, McCormack will have a predominantly European focus, working closely with Duco's EMEA sales team. He will report to Brendan Siebecker, global head of partnerships.

McCormack's background in supporting transformation and operations teams at financial services firms will help him to position how Duco supports these teams in solving challenges.

With more than 20 years of experience in the financial sector, McCormack was previously head of collateral product management and professional services at AcadiaSoft.

The Mitsubishi UFJ Trust and Banking Corporation (MUFG) has welcomed Laksh Vaswani as senior vice president and global head of trust operations.

Based in New York, Vaswani will spearhead strategic business initiatives to aid the growth of the firm's global securities lending solutions and US custody businesses.

He joins the firm from consulting group Program Management Professionals, where he acted as executive director of governance, risk, compliance, risk and control self-assessments, internal controls and remediation.

Previously, Vaswani held a number of senior positions during his nine-year term with BNY Mellon, where he was most recently senior programme manager of operations, recovery resolution planning, governance, risk and compliance.

Sionic has appointed Ricky Maloney as a director of the asset management practice. Based in London, he will be tasked with expanding the company's buy-side footprint in North America and other regions.

Maloney has more than 20 years of experience in the industry and joins Sionic from Eurex, where he was head of buy-side sales and relationship management for fixed income derivatives, funding and financing.

He has held a number of leadership roles throughout his career, including co-head of service delivery and head of treasury processing at Ignis Asset Management and managing director at Solvere FMC investment bank.

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