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Native digital assets

In a two-part article, Dr Ian Hunt explores why the popular view of digital assets is wrong and outlines the benefits that use of native digital assets can bring to securities finance

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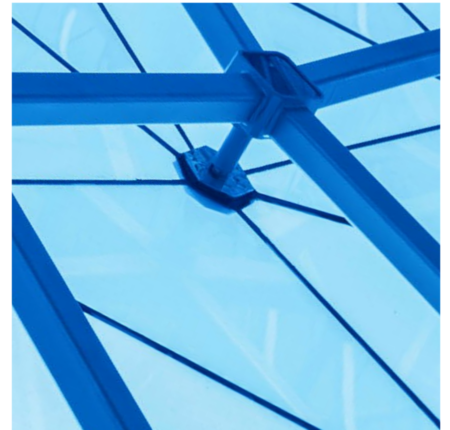

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Sharegain forms alliance with J.P. Morgan

B2B securities lending fintech firm Sharegain has formed a strategic alliance with J.P. Morgan's Securities Services business.

Sharegain's Securities Lending Technology (SLTech) solution aims to enhance J.P. Morgan's securities agency lending offering by improving its accessibility to wealth managers and online broker participants

The collaboration between the two firms adds an additional global custodian to Sharegain's growing roster of clients in APAC, Europe and the Middle East, according to the fintech.

Commenting on the announcement, Harpreet Bains, global head of product management for J.P. Morgan's Agency Securities Finance division, says: "This collaboration enables J.P. Morgan to address the growing needs of the aggregator segment, which is increasingly searching for scalable solutions to offer securities lending to their end customers without the time and cost burden of implementing complex technology.

"Connecting our technology and global distribution capabilities to Sharegain's SLTech solution allows clients to monetise a new and substantial pool of attractive lending supply and addresses the complexities requiring consideration when aggregators expand their offering to include securities lending."

CEO and founder of Sharegain Boaz Yaari adds: "We are thrilled to partner with J.P. Morgan to deliver a fully digital securities lending solution to its customers. This strategic alliance represents another validation of Sharegain's technology and expertise. It also underscores the power of innovation as a catalyst to democratisation and inclusion in capital markets."

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Powering a strong first quarter

Securities finance revenues rose almost 25 per cent YoY to US$3.42 billion during Q1 2023. S&P Global Market Intelligence's Matthew Chessum explains why the first quarter was one of the best for many years

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Industry people moves

After almost 30 years in the securities lending industry, financial veteran Edward Marhefka is to retire from his position at S&P Global Market Intelligence.

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Mosaic extends support to repo market

Capital markets data analytics firm Mosaic Smart Data has added support for repo instruments to its artificial intelligence-powered platform.

It comes as a response to a growing demand from banks for the ability to optimise balance sheets, the firm says.

Banks look to accomplish this through having a real-time and historical view of repo transaction data across all client accounts and convert this data into actionable intelligence at the click of a button. The platform is designed to aggregate the entirety of a bank's repo data, normalise it and apply machine learning and AI to extract insight from that data.

A shift to automated and ultra-low latency electronic trading, in addition to an increase in the number of participants and the amount of data generated from rising volumes, has created urgency for banks to view all repo transaction data from across the organisation and external sources, the firm says.

ISLA releases template clause for Austria

The International Securities Lending Association (ISLA) has published a new Austrian template to accompany the 2010 and 2018 versions of the Global Master Securities Lending Agreement (GMSLA).

It follows a requirement from ISLA members to produce a standard form template clause to assist market participants when lending and borrowing Austrian securities, as a result of an Austrian Ministry of Finance publication in November 2022.

The publication was titled 'Information on Levying and Refunding of Austrian Withholding Taxes on Dividends received by Taxpayers with Limited Tax Liability (Non-Resident Taxpayers) from Public Limited Companies'.

The newly released ISLA template is for use with the GMSLA 2010 Title Transfer and the GMSLA 2018 Pledge agreements.

This wording was drafted by members of the ISLA Tax and Legal Steering Groups and reviewed by Freshfields

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Bruckhaus Deringer LLP. The wording can be used as an additional provision in new GMSLAs, says ISLA, or as an amendment to legacy ones.

Kaizen Reporting buys compliance solutions specialist Red Deer

Kaizen Reporting has purchased compliance solutions provider Red Deer for an undisclosed sum.

This follows on the heels of Kaizen's acquisition of repo data and analytics specialist London Reporting House in early March.

Red Deer's surveillance and research solutions will be available via the Kaizen hub, Kaizen's web-based regulatory technology platform that supports a wide range of compliance tools.

The acquisition will add Red Deer's surveillance and research capability, currently available through its proprietary technology platform, assisting middle office and compliance divisions in meeting regulatory compliance obligations and identifying cases of market abuse, including spoofing, layering and other market manipulation in exchange-traded and over-the-counter markets.

Red Deer's online research tools help firms to manage compliance commitments including Unbundling and Fair Value requirements under MiFID II, while its communications surveillance solutions can screen and trace email and chat conversations for cases of illegal activity.

Kaizen Reporting's CEO Dario Crispini says: "As a leading RegTech provider, we are always looking to diversify our compliance offering for clients. The acquisition of Red Deer demonstrates our strengths in supporting clients with their regulatory and compliance needs and we are delighted to offer this new range of surveillance and research tools to our clients through the Kaizen Hub."

Alistair Downes, head of product at Red Deer, adds: "By combining the two companies' expertise and technology, we are able to solve clients' regulatory challenges more effectively. Kaizen's reputation for delivering leading services in the reporting industry, along with the service and tools we offer, will create an integrated solution for all of a firm's regulatory and compliance needs."

DSB launches Unique Product Identifier User Acceptance Test service

The Derivatives Service Bureau (DSB) has welcomed the launch of its Unique Product Identifier (UPI) Service User Acceptance Test (UAT) environment.

The service aims to aid industry readiness and implementation of UPI regulatory mandates in derivatives markets, including amendments to the US Recordkeeping and Swap Data Reporting, EU EMIR Refit and UK EMIR.

Designated by the Financial Stability Board (FSB) as the sole service provider for the UPI System, the DSB will perform the function of issuer of UPI codes as well as operator of UPI reference data library.

According to the DSB, the UPI will support the aggregation of over-the-counter (OTC) derivatives transaction

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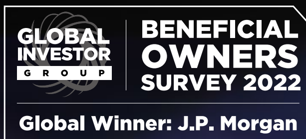

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reports on a global basis, facilitating the use of OTC trade reporting data, and helping authorities assess system risk and detect market abuse.

Under jurisdictional regulations, reporting parties must incorporate the UPI into their reporting workflows and submit them to trade repositories. This will fulfil G20 commitments agreed as part of a package of reforms to the OTC derivatives markets made after the financial crisis, the DSB says. Mandates to report the UPI have been published in the EU, UK, US and Australia, with additional jurisdictions to follow.

The UAT provides a nine month period before the first compliance date which seeks to allow prospective UPI users time to implement and test their UPI connectivity, data integration and workflows in advance of compliance dates.

Subsequently, the DSB will launch the UPI Service into production on 16 October 2023 — three months before the first regulatory compliance date.

In addition to the release of the UPI UAT, the DSB has launched its online, self-service platform, Client Onboarding and Support Platform (COSP), which is designed to guide users through the DSB's UPI Service onboarding process.

Users can create a user entity profile to manage UPI subscription and connectivity options for access to search for and create UPIs, says the DSB. As part of this process, the DSB has redesigned the website to enable market participants to access the information needed for utilising the OTC ISIN and UPI Services.

Deutsche Börse to table bid for Simcorp

Deutsche Börse has entered into a binding agreement with Simcorp, through which the German market infrastructure giant will make an cash offer for 100 per cent ownership of the Copenhagen-headquartered buy-side technology company.

Simcorp's board of directors indicate that they intend to recommend to company shareholders that they accept Deutsche Börse's offer. Members of Simcorp's executive management board and board of directors have agreed irrevocably to accept

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the offer or otherwise sell their shares to Deutsche Börse.

The public takeover offer will be for all Simcorp shares, with the exception of treasury shares, at DKK 735.0 per share (€98.6 per share), which puts a valuation of €3.9 billion on the target company.

Deutsche Börse says, in its public statement, that this represents a 39 per cent premium to the Simcorp closing price on 26 April and a 45 per cent premium to the 3-month volume weighted average price.

The two companies indicate that the Simcorp purchase will complement Deutsche Börse's existing data and analytics businesses and lay the foundations for a full front-to-back investment management solutions segment, including the addition of Simcorp's investment management software-as-a-service (SaaS) and business-process-as-a-service (BPaaS) capability to the exchange group's stable of services.

This also builds on the existing cooperation between Simcorp and Deutsche Börse subsidiary Qontigo established in 2021.

Deutsche Börse intends to combine Qontigo with its existing investor communication arm ISS and has reached an agreement in principle with US growth equity investor General Atlantic to create a leading ESG, data, index and analytics provider, with General Atlantic becoming sole minority shareholder of the Qontigo entity.

They note that this will enable them to explore new value-generating options in capital markets, including the potential for an IPO at some point in the medium term.

By purchasing Simcorp, the proposed combination of Qontigo and ISS will create the building blocks for Deutsche Börse to accelerate the development of its Data and Analytics segment and its intended Investment Management Solutions segment.

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Deutsche Börse will finance the proposed offer with cash and debt and has established a fully underwritten bridge facility with Morgan Stanley which is likely to be refinanced by a mix of existing cash and fixed income capital market instruments.

Commenting on the proposed deal, Deutsche Börse CEO Theodor Weimar says: “Over the last couple of years, we have significantly enhanced our data and analytics capabilities with a strong strategic focus to further develop within the investment management business.

“SimCorp A/S is a perfect fit strategically and culturally. It is one of the leading global investment management software providers, serving the largest asset managers and asset owners worldwide. Through our existing partnership, we have come to know and appreciate the management of SimCorp A/S and the strategic transformation they have initiated, backed by a highly competent team of skilled employees.

“In addition to the SimCorp A/S transaction, we have decided to merge ISS and Qontigo. Both transactions will bring long-term growth, sizeable and tangible synergies, and a significant increase of our recurring revenues. We would be delighted to welcome SimCorp A/S, which has been a trusted business partner for many years, to Deutsche Börse Group and to embark on this exciting journey together.”

Peter Schütze, chair of the board of directors of SimCorp A/S, comments: "The Board of Directors finds that the offer from Deutsche Börse AG represents attractive value for the shareholders of SimCorp A/S as the company accelerates its transformation to a full-scale SaaS and BPaaS provider to deliver sustained long-term profitable growth.

“Deutsche Börse AG is well-positioned to contribute to the realisation of the long-term potential of SimCorp A/S, and the offer is a clear testament to the strong position and prospects of SimCorp A/S in a global investment industry undergoing fundamental changes and seeing rising demand for integrated technology platforms."

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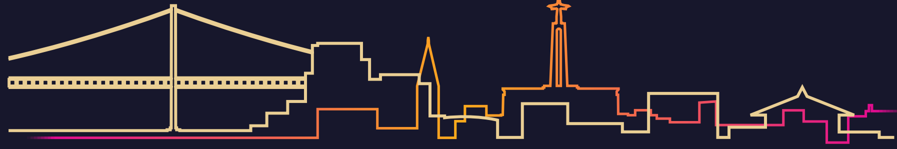

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Native digital assets – maximising the benefits of digitisation

In a two-part article, buy-side business process and technology specialist Dr Ian Hunt explores why the popular view of digital assets is wrong and outlines the benefits that use of native digital assets can bring to securities finance

It is a common view in sections of the news media that 'digital assets' are the same thing as cryptocurrencies. More sophisticated observers may be aware that tokenised versions of conventional assets exist and they often label these as 'digital assets' also. There is a problem with this view: cryptos are currencies, not assets as such, and tokenised conventional assets are conventional, not digital. The missing components, and the components that will be transformative, are native digital assets, and they are what this two-part article is about.

New model of investment

We have spent many years developing and implementing incremental improvements to financial markets, operations and technology. We have tried to reduce the risks and costs inherent in our conventional models of investment, added new entities to patch over cracks, offshored and outsourced to reduce resource costs, and automated processes wherever we can. Despite this, we are nowhere near to a single coherent operating model, nor anything close to an issuance model that directly represents the real purpose of our industry.

In our conventional world of assets and transactions, each asset class has its own issuance model — how it is created, issued and owned — and its own operating model, defining how it is managed, traded and settled. These tend to be very complex and involve many entities, processes and controls. This combination of the multiple asset classes, operating models, entities, processes and controls drives a firestorm of regulation, which adds its own complexity to an already convoluted picture.

The smart token model proposed here eradicates this complexity and reduces the cost and risk that are its inevitable consequences. The smart token model is a single, simple digital issuance model and a single, simple operating model for all assets. It enables us to issue and own all digital assets in the same form and to manage, trade and settle transactions in those assets in the same way, whatever the asset is that we are seeking to issue and trade.

The model aims to provide a practical method of operation for a fully digital ecosystem. "Fully digital" in this context means that all value and all transactions exist only in digital form: there is no use of conventional

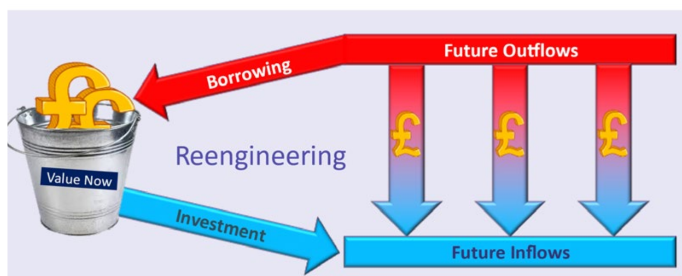
issuance, registry, custody, banking or payment and delivery rails. Pools of value are in the form of tokens on a digital ledger and all movements of value are flows of tokens between addresses on the digital ledger. The existence of a token at a node on the ledger is proof of the ownership — of whatever that token represents — by the owner of that node. We refer to 'nodes' in this paper, but these may also be referred to as 'wallets' or 'addresses'.

The benefits of the smart token model are profound. This eliminates the boundaries between asset classes and allows us to build whatever assets and transactions that we want and that are useful to issuers and investors. It enables the issuer of capital to create exactly the funding that they want and enables the asset owner to seek precise matches to their investment requirements. The model brings orders, executions, entitlements, corporate actions, income, securitisations, collateral and liabilities into the same simple operating model as trades. Asset servicing disappears as a result and trading and settlements become simple and fully automated.

What our industry is for

If we strip away the blizzard of entities and activities engaged in what we currently do and let the snow settle, then it becomes clear that the finance industry only manages two related things and its purpose is to reengineer one into (and out of) the other. These are:

1. Current pots of value
2. Future flows of value



To deliver investment, we re-engineer a current pot of value into a set of future inflows. To deliver borrowing, we do the converse and re-engineer future outflows into a current pot of value. That is all that we really do. Everything else that exists or happens in finance is there to aid and abet delivery to these fundamental objectives.

The players who really matter in our industry are obvious when the purpose of the industry itself becomes clear: they are the investors (or 'asset owners' in the institutional world) and the borrowers (or 'capital issuers'). These are the players who make, or who want to receive, the future flows and who need, or who want to defer, current value. Everyone else in the business is there only to serve the needs of these ultimate participants and only deserves their place in the industry if they genuinely make it easier, cheaper or safer for investors and borrowers to achieve their goals.

Why the model is like it is

There are hundreds of projects tokenising conventional assets. They may be worthy, but not one of them will transform the industry.

Tokenised conventional assets are just that: slightly sexier versions of conventional assets. The only digital thing about them is their title — i.e. their ownership — which exists on-ledger. Their regulations, controlling entities, operating models and terms and conditions are unchanged and still exist wholly off-ledger. Registry, trading and fractionalisation are easier with tokenised assets, but not much else is. Native digital assets are not conventional assets in a sexier wrapper. They are wholly different and do not conform to the straightjacket of current instrument classes.

In conventional finance, each asset type is wrapped up in law and regulation as if it were a coherent 'thing': it is valued, risk managed and traded as a single indivisible whole. A consequence of the smart token model is that what we commonly call "assets" are not coherent, unitary things at all, but are really just collections of commitments to future flows of value. That value is often, but not always, represented in cash.

In a purely digital ecosystem, all pots of value are tokens and all movements of value are a flow of tokens on the digital ledger. In this context, current value is represented by tokens — generally cash tokens — and native digital assets can only be one thing: commitments to future flows of tokens. It is as simple as that. This maps the purpose of the industry very effectively: it is all about the management of current pots of value and future flows of value, in token form, because we are in a wholly digital context.

So digital asset tokens should represent commitments to future flows, not title to conventional assets.

Making tokens smart

In this context, the native digital asset tokens are like IOUs — they are representations of liabilities, held by the lender as a pledge until

the borrower discharges its debt, and are then handed back to the borrower. The next big step is to make the tokens themselves control what goes on: they need to be smart and potent. The difference with smart tokens is that it is the tokens themselves that make the repayment happen, not the parties to the debt.

Making tokens smart sounds complex, as if they will be like full business systems in their own right. However, because the only thing that happens on the digital ledger is the movement of tokens between nodes, the only thing that a smart token can do is to move tokens — itself or others — between nodes. That means that smart tokens are relatively simple entities — they just need to know what they have to do, when they need to do it, and according to which constraints. Then they require the potency to do it, where the 'it' is just moving tokens on the digital ledger.

When the tokens are smart and potent, many of the processes that are carried out in the conventional world by regulated entities — for example order management, execution, entitlement calculation, corporate actions, income payments, securitisations and collateral transfers — are carried out automatically by the tokens themselves. This may sound concerning — that tokens should be making transfers of value without human intervention — but the tokens are not making any of this up. They are just giving effect to what the parties to a transaction have already agreed will happen.

The two big ideas

The key steps that get us from conventional tokenisation to the smart token model are twofold:

- First, we recognise that native digital assets are (and can only be) commitments to future flows of tokens, so we issue digital asset tokens that represent those flow commitments, rather than issuing them to represent title to conventional assets.
- Second, we make the tokens that constitute native digital assets smart, so that they can initiate and deliver, as well as describe, the committed flows of tokens.

That's all. Once we take on board these two fundamental ideas, the smart token model becomes clear and the seismic potential of native digital assets opens up to us. Every asset is issued in the same way, every transaction follows the same operating model and regulation shrinks from a firestorm to a candle flame.

Digital initiatives in securities finance

Current digital initiatives in securities finance are almost all based on conventional assets, and deploy those assets as collateral in upgrades, in OTC credit agreements, in loans, or in repo transactions. These are prominent examples of the tokenisation of wholly conventional assets.

This is not to say that these initiatives are without value: they deliver precisely the benefits that accrue from replacing conventional delivery rails with on-ledger token-transfer. While the asset is conventional, and exists wholly off-ledger, the title to the asset is digitised and exists on the digital ledger in token form. It is generally easier, quicker and cheaper to move tokens on a digital ledger than to move assets between custodian or depositary accounts. This allows us to increase the frequency of collateral movements: by doing so, we reduce daylight exposure, while also reducing costs.

In most initiatives, the cash side of financing transactions is conventional and depends on conventional payment infrastructure. This means coordination between payments off-ledger and the movement of title on-ledger. In more ambitious projects, the cash side of transactions may be represented on-ledger also, but this has been restricted in most cases to commercial bank-issued digital currency, such as JPM Coin. This facilitates atomic settlement, giving the benefit of locked 'delivery versus delivery', and removes the need to align with off-ledger payments.

So there are benefits in tokenising conventional collateral, but these are dwarfed by the benefits of native digital assets.

Dr Ian Hunt is an authority on buy-side business process and technology. He is an industry consultant to multiple leading asset managers, recognised for his work in promoting innovation in technology for investment. He was the designer of FundAdminChain's digital funds ledger, and recently published a major set of papers on Digital Issuance and Native Digital Assets, launched at the Investment Association in London. Hunt has worked with a number of large asset management companies on their strategies for distributed ledger technology. He has also been active in securities finance, helping BNP Paribas to implement their outsourced repo process and Threadneedle with their stock lending operations.

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Enhanced reporting: forming a transparency initiative

RMA director of securities lending and global markets risk Fran Garritt explores the upcoming Form N-PX amendments and its impact on funds and institutional investment managers. Carmella Haswell reports

With only mere months to go, the industry is soon to face the introduction of new Form N-PX rules which are to impact securities lending programmes and proxy voting. As the sector prepares to adapt, concerns still revolve around amendments.

On 2 November 2022, the U.S. Securities and Exchange Commission (SEC) adopted amendments to Form N-PX designed to enhance the reporting of proxy votes by registered funds and the reporting of executive compensation (“say-on-pay”) votes by institutional investment managers.

Form N-PX was introduced two decades ago and its basic principle was to inform investors how funds voted shares held on their behalf, also known as voting proxies. The changes have come as a result of investors' concerns surrounding the lack of readily usable information.

The amendments to Form N-PX were first proposed during a commission meeting in which SEC chair Gary Gensler highlighted a number of issues surrounding Form N-PX including excessive length of filings, inconsistent reports on votes of the same matter from fund to fund, vague descriptions of votes and lack of machine-readable format.

The transparency initiative

As market participants digest the amended rules and work to define scope and data requirements, the Risk Management Association (RMA) is assisting its members by publishing a summary of the Form N-PX alterations related to securities lending as well as optional language that can be used in the narrative disclosure of the amended form. Disclosure obligations and proxy voting are highlighted in the RMA’s summary.

Quantitative disclosures of securities lending activity are included in the new amendments to Form N-PX — with disclosure obligations for institutional investment managers applying to those firms that exercise discretion over their securities lending programme.

According to Fran Garritt, RMA director of securities lending and global markets risk, ensuring data integrity will be key, as with any transparency initiative, when approaching the “relatively straightforward” securities lending disclosures within Form N-PX.

In terms of proxy votes, each shareholder meeting in which a fund is eligible to vote, the fund must report the number of shares that were voted and the number of shares that the reporting firm has out on loan that it did not recall. In cases where shares were not returned in time for the fund to vote, the reporting party should enter these shares as “loaned” and not as “recalled”, even if the fund intended to recall the shares for voting purposes.

Form N-PX provides opportunity, in Item 1(0), for the fund to enter additional information on the reporting form indicating that it had intended to vote these shares and had recalled them for the purpose of doing so. In these scenarios, a fund may disclose additional information on Form N-PX (Item 1(0)) to make clear that its intention was to vote and that it recalled the shares in time to do so.

Gensler indicates that these amendments will allow investors to better understand and analyse how their funds and managers are voting on shares held on their behalf. In addition, the newly designed Form N-PX aims to provide investors with more detailed information about proxy votes, create more consistency around how funds describe their proxy votes and structure Form N-PX in a machine-readable format.

Garritt suggests that funds and institutional investment managers will look to their lending agents and custodians to provide data to assist with filings that relate to the reporting of securities lending activity and proxy voting records.

He continues: “In-scope clients are encouraged to discuss the new requirements and available reporting with their lending agents before the new rules go into effect. The availability of meeting agenda items ahead of record date to facilitate the timely recall of securities can be an additional challenge for lenders.”

The SEC understands that the additional disclosures are not intended to impact a fund's determination on whether to vote or lend. As noted in the final rule amendments:

"...the disclosure requirement is not intended to change the analysis reporting persons may undertake currently as to whether to recall a loaned security, such as by creating pressure for reporting persons to programmatically recall lent shares, or to create a negative implication when a reporting person does not recall a loaned security in any given case. Such determinations are subject to an adviser's fiduciary duties owed to its clients. If a reporting person believes that leaving securities on loan is in the client's best interest, the reporting person should leave those securities on loan."

However, when first proposed in 2021, the RMA voiced concerns for the potential for disruptions in securities lending programmes. Garritt believes that some in-scope lenders may consider changing their lending policies to implement a standing recall instruction for all upcoming proxies as a result of the increased disclosure. "This could reduce market liquidity and negatively impact shareholders by reducing the lending returns achieved by funds," Garritt warns.

While the SEC recognises the benefits of securities lending to funds and their shareholders, and clarifies that the amendments are only intended to increase transparency and not influence behaviour, Garritt says it remains to be seen whether the new disclosure requirements will result in changes to lending policies by in-scope lenders.

To help mitigate any potential negative implications, the SEC has given funds the option to provide a narrative disclosure on the Form N-PX cover page, as well as on a vote-by-vote basis (Item 1(0)). This additional disclosure can be used to give context to the fund's proxy voting policy and its securities lending activities.

As described by RMA, regarding the narrative disclosure on Form N-PX, the fund participates in a securities lending programme to generate additional income for the benefit of its underlying shareholders. While the fund forgoes its voting rights while shares are on loan, the fund retains the ability to recall loaned securities at any time. The fund recalls loaned securities if deemed appropriate and in the best interest of its shareholders.

Key considerations

While the amendments aim to enhance the reporting of proxy votes, making it easier for investors to evaluate and compare proxy voting records of mutual funds, exchange-traded funds (ETFs) and other fund entities, will the new rules place the industry in good stead to achieve this objective?

Several lenders have already implemented policies and procedures to aid in the decision to lend or restrict lending a security to vote by proxy. Garritt says that these policies often incorporate a number of factors that weigh the benefit of lending revenue against the value created from voting securities that would otherwise be on loan.

"While RMA is an advocate for transparency," Garritt states, "we question whether the number of shares loaned and not recalled is a meaningful data point for investors to adequately evaluate and compare proxy voting and lending policies across funds."

The new rule amendments go into effect with votes starting on 1 July 2023, with the first amended Form N-PX filings due in August of 2024.

RMA understands that the majority of lenders currently have the ability to track and monitor proxy dates and shares on loan, either internally or through a lending agent or vendor. Any additional development for the securities lending disclosures required in amended Form N-PX should be minimal and should not present an issue for the industry, according to Garritt.

He concludes: "It is worth noting that shops will need to balance resources across several other regulatory initiatives impacting our business, including the move to T+1 settlement in the US and Canada in 2024 and the potential finalisation and implementation of SEC proposed rule 10c-1."

Fran Garritt
Director of securities lending and global markets
RMA

Powering a strong first quarter

Securities finance revenues flourished during Q1 2023, rising almost 25 per cent YoY to US$3.42 billion. S&P Global Market Intelligence's Matthew Chessum explains why the first quarter was one of the best for many years

The first quarter of 2023 was one of the most financially tumultuous since the end of the global financial crisis (GFC) in 2008, with both fixed income and equity markets experiencing some of the most extreme repositioning ever witnessed.

As the year started, signs of easing inflation led many market participants to believe that central banks would be slowing their hiking cycles sooner than expected. This quickly changed, however, as economic data reported higher inflation numbers and government bond yields climbed as a result. In equity markets, tech stocks, which were the big losers of Q4 2022, became the new champions of Q1 as mega-cap technology companies outperformed every other sector. Growth stocks outperformed value stocks once again. The quarter concluded with the banking turmoil in the US leading to the largest bank bankruptcy since the GFC. Spill over was seen across the European banking sector with the buy-out of Credit Suisse by UBS.

Despite this, securities finance revenues flourished, and the first quarter of 2023 was one of the best for many years. Along with Bitcoin (up 71.2 per cent) and tech stocks (the Nasdaq 100 was up 20.5 per cent), securities finance was one of the big winners during Q1 2023. Specifically, the first quarter of 2023 generated US$3.415 billion in securities finance revenues, reflecting a 24.5 per cent increase on Q1 2022. Revenues exceeded the US$1 billion mark during every month of Q1 2023, with February being the lowest revenue generating month at US$1.054 billion, slightly below January revenues of US$1.116 billion.

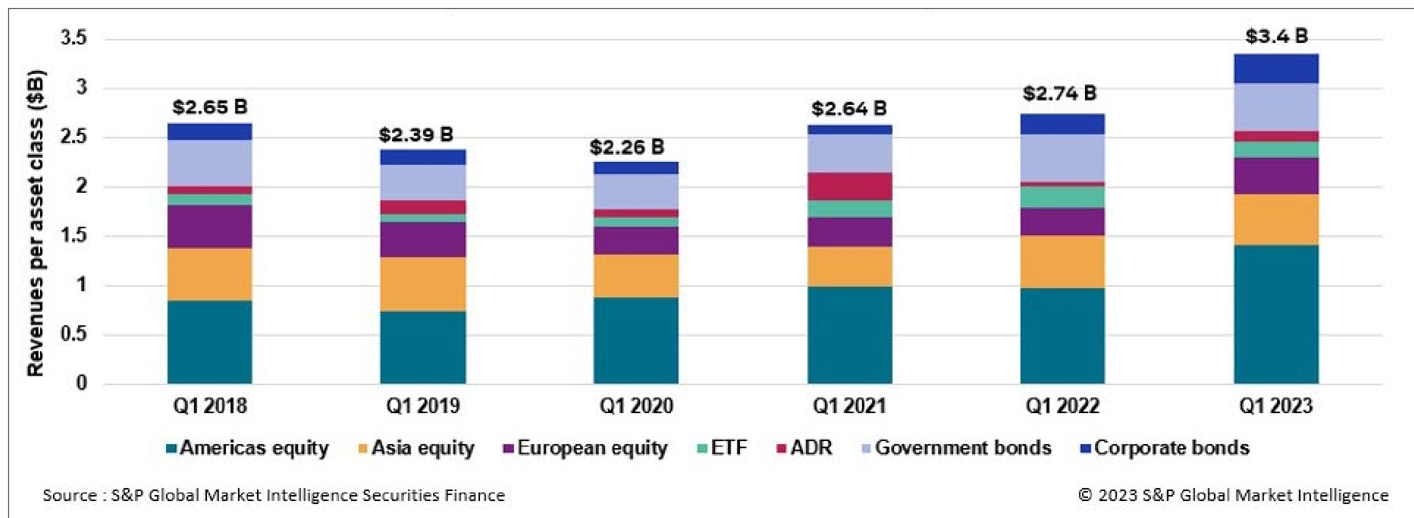
The Q1 2023 average fee of 53bps was 39 per cent higher than the Q1 2022 average fee rate of 38bps. Over the period, balances declined by 10 per cent YoY and utilisation declined by 1 per cent, illustrating a more expensive borrowing environment.

The standout asset classes during Q1 2023 were similar to those that generated strong revenues during 2022. Fixed income assets delivered both higher revenues and higher fees, while equity revenues, led by US equity specials and an increase in EMEA average fees towards the end of March, continued to push higher.

Global equities

Equity revenues hit a Q1 high of US$2.596 billion globally, driven by US$1.417 billion in revenue from Americas equities, US$513 million from APAC and US$376 million from EMEA. Alongside these contributions, US$102 million was generated from American

Fig 1: Q1 securities lending market returns



Depositary Receipts (ADRs) and US$161 million from exchange-traded products (ETPs) over the period. The average fee across all equities over the quarter was 84bps, representing a 29 per cent increase on Q1 2022.

Average fees increased significantly in North America, up 47 per cent, and in EMEA, rising 40 per cent YoY, while declining slightly across APAC (-1 per cent).

Over the period, Americas equities were the standout contributor to these impressive returns. Following on from 2022, specials activity — denoting any loan made with a fee greater than 500bps — delivered US$1.015 billion in revenues, representing approximately 71 per cent of all revenues from this region. AMC was key to driving these stellar returns, generating more than US$233 million alone. Other well known ongoing specials such as Bed Bath and Beyond (BBBY, generating US$34 million in revenue), Gamestop (GME, generating US$49 million) and Beyond Meat (BYND, generating US$89 million) also continued to contribute good returns for lenders.

In Canada, average fees over the period were 69bps, which represents a 17 per cent increase over Q1 2022. Final Q1 revenues for the quarter were US$107.6 million, with March offering the most fruitful month for Canadian revenues at US$40.4 million generated. An impressive average fee of 72bps, up 15.8 per cent YoY, helped push revenues higher.

EMEA equities experienced one of the strongest starts to the year in recent history, with Q1 revenues of US$376 million marking a 36 per cent increase on Q1 2022. Despite a modest fall in balances over the period, average fees were 40 per cent higher YoY at 67bps. The majority of EMEA markets witnessed double-digit increases in revenues and average fees over the period, with the exception of Italy, Spain and Belgium. Revenues in Sweden and Switzerland were particularly strong, with both markets beating previous Q1 figures by some margin.

APAC was the only region to experience a decline in average fees and revenues over the quarter. The region generated US$513 million in revenues, down 4 per cent YoY, and average fees declined 1 per cent to 90bps. Japan was the standout market in the APAC region, with quarterly revenues strengthening 24 per cent to US$173 million and with average fees rising 20 per cent YoY to 49bps. Q1 is typically a strong quarter for Japan, with the bulk of dividends going ex in March. However, the revenues this quarter benefited from a US$9 billion public offering from Japan Post Bank (7182), with demand to borrow this GC stock peak at 90 per cent.

Despite lower revenues in South Korea and Taiwan, Q2 and Q3 activity is expected to increase as volatility declines and short selling restrictions are eased.

Fixed income

Fixed income assets continued to produce impressive returns over Q1. Both corporate and government bonds delivered strong revenues and maintained or increased the elevated fees that were seen during 2022.

Borrowing activity has persisted in corporate bonds and, despite the uncertainty surrounding future interest rate moves, this asset class remains very popular among borrowers with revenues increasing 45 per cent YoY to US$298 million. Monthly revenues surpassed US$102 million for the first time during the quarter, after declining month-on-month during February. A combination of market liquidity and directional opportunities continue to push revenues in the asset class higher for the benefit of lenders, with Q1 average fees up 60 per cent YoY at 46bps.

Government bonds followed along a similar vein, with this asset class continuing to make an important contribution to returns across all securities lending programmes. Q1 revenues were 12 per cent higher YoY at US$482.3 million, the strongest Q1 revenue figures for many years — with January delivering the highest monthly revenues, at US$168 million, as a follow-on from year-end positioning carried over into the new year.

Average fees for the quarter climbed 35 per cent YoY to 18bps, which is only 1bps lower than the average seen during Q4 2022. Despite the higher revenues and the rise in average fees, utilisation was down by 13 per cent during Q1 to 21.8 per cent.

These performance figures confirm that the securities finance industry had a highly successful quarter despite, or most probably because of, the market volatility evidenced throughout Q1. For fixed income assets, lenders have benefited substantially from the elevated average fees across corporate and government bonds, with the general preference typically being for shorter-dated government bonds. In the equity markets, the benefits will be more restricted. With an incredibly profitable group of stocks driving most of the revenues one has, as they typically say, “got to be in it to win it”!

Senior management changes at BNY Mellon, S&P Global and ICMA

BNP Paribas has confirmed the departure of Michael Saunders after more than a decade with the firm.

Saunders was formerly head of agency lending, Americas, for BNP Paribas' Securities Services business, which he has held since 2016.

Based in New York, he was responsible for the management of the firm's global securities financing business including trading, business development and client services.

Previously, Saunders joined BNP Paribas in 2013 as director, head of trading and investments for the firm's North American agency securities lending team.

Saunders will take a period of gardening leave before commencing his next role in the industry.

After 21 years with the New York bank, Bill Kelly is to retire from BNY Mellon.

The securities finance veteran, managing director and global head of securities finance celebrated the milestone at his recent retirement party.

Kelly first joined BNY Mellon in 2002, where he took on a number of senior roles including deputy head of securities lending and head of new business and client service, before going on to direct global activities for the bank's securities finance business and guide its business strategy.

Prior to joining the New York bank, Kelly

Edward Marhefka to retire

After almost 30 years in the securities lending industry, financial veteran Edward Marhefka is to retire from his position at S&P Global Market Intelligence.

Marhefka is currently managing director, head of equities data and analytics at S&P Global Market Intelligence's New York office. In his current role, Marhefka is responsible for managing these parts of the business, which encompass securities finance, exchange-traded funds (ETFs) and benchmark services, to name a few.

The equities data and analytics businesses were transitioned to Paul Wilson and Alessandro Ferretti earlier this year.

He first joined the firm, formerly known as IHS Markit, in 2013 as managing director and co-head of the Markit Securities Finance business in North America.

Prior to his decade-long tenure with the financial information services firm, Marhefka spent 15 years at Morgan Stanley managing the global equity finance and repo sales teams.

Earlier in his career, Marhefka worked in the prime finance business at Lehman Brothers in a sales capacity. Previously, he served in the custody and clearance business at Bank of America and Bankers Trust.

Marhefka is to retire from S&P Global Market Intelligence on 31 May 2023. His future plans include travelling, golf and enjoying the New Jersey shore with family and friends.

Commenting on his retirement, Marhefka says: "I am grateful and thankful to the many people who supported, trusted and worked with me during my career. There are too many to list, but I will never forget the impact they made on my career and me and my family."

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spent 13 years at Bankers Trust, which was subsequently acquired by Deutsche Bank. Here, he managed the global sales and client management activities of the global portfolio management group, which was responsible for securities lending and short term money management products.

The International Capital Market Association (ICMA) has appointed Miriam Patterson as senior director of market practice and regulatory policy.

In the role, Patterson will report to Paul Richards, managing director, head of market practice and regulatory policy at ICMA.

She will be working alongside Ruari Ewing, senior director of market practice and regulatory policy, focusing on ICMA's legal and documentation committee and related groups.

In due course, Patterson will also support ICMA's broader EU and UK regulatory engagement.

Patterson joins the Association from Thomson Reuters, where she has worked since 2008 and was most recently senior editor of practical law global capital markets.

Previously, she held positions at Latham & Watkins and at Allen & Overy. She has been admitted as a Solicitor of the Supreme Court of England and Wales and admitted to the Bar of the State of New York.

UBS has appointed Phillip Funk as custody and product strategy manager.

Funk was at SIX for more than 13 years. Most recently he was head of product management for securities finance from May 2021 to December 2023.

Previously, he was senior strategic project manager and director at SIX from July 2018 to April 2021 and head of fund services at the company from January 2016 to 2018.

Before his tenure at SIX, Funk served at Swiss company Hypothekarbank Lenzburg from 2007 to 2009.

State Street has expanded the role of Asia Pacific CEO Mostapha Tahiri to lead the firm's Middle East business with immediate effect.

Tahiri will serve as head of the Middle East, in addition to his current responsibilities for the Asia Pacific region. He will be responsible for all business activities for the two regions, driving strategy, increasing client engagement, pursuing growth opportunities and managing diverse stakeholders such as local officials and regulators.

According to Tahiri, the Middle East is a "growth engine" for State Street and he will continue to build on the firm's 30-year presence and on-the-ground service in the region.

Based in Singapore, Tahiri will continue to report to Andrew Erickson, chief productivity officer and head of International Business, and Lou Maiuri, president, chief operating officer and head of Investment Services.

Tahiri joined State Street in 2020, having previously held numerous leadership positions at BNP Paribas for the past 20 years, including Asia Pacific CEO of BNP Paribas Securities Services.

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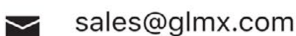

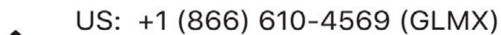

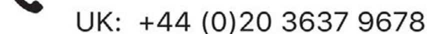

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