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The tale of two businesses

State Street's new heads Taryn Siglain and Patricia Hostin explore the advancement of the firm's core securities finance businesses and the importance of representation in the workforce

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TMX collaborates with Clearstream to release new Canadian collateral management service

TMX Group has announced that it will launch a new collateral management service for the Canadian market that is scheduled for Q3 2023.

The collateral solution, named the Canadian Collateral Management Service (CCMS), has been built through collaboration with Clearstream Banking SA, Clearstream's ICSD and licensed banking arm based in Luxembourg.

TMX Group, which operates the Toronto Stock Exchange and key Canadian post-trade infrastructure including the Canadian Depository for Securities (CDS), has worked with Clearstream to bring together their collateral management and post-trade expertise, delivering improved optimisation and collateral mobilisation to the Canadian market and offering domestic triparty repo in this location for the first time.

The first phase of CCMS will offer collateral management benefits to participants in Canada's secured funding market, delivering greater automation and processing efficiency across the SFT lifecycle.

TMX indicates that this will also set the Canadian market in a better position to move to T+1 settlement in May 2024, supporting greater collateral mobility at lower operational risk.

Commenting on the forthcoming CCMS release, TMX Group CEO John McKenzie says: "We are pleased to work together with Clearstream, a world-leader in post-trade infrastructure and securities services, in pursuit of a customised mobility and liquidity solution for Canada's secured finance industry.

"In keeping with our purpose to make markets better and empower bold ideas, TMX is firmly committed to seeking out innovative, workable solutions to client challenges and strengthening Canada's financial ecosystem.

"The new CCMS will enable our clients to better meet the continuously evolving collateral requirements of today's markets, while supporting the growth of repos as an investment product for Canadian buy and sell side clients," adds McKenzie.

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State Street's new heads Taryn Siglain and Patricia Hostin share their plans for the advancement of agency lending and prime services businesses, while highlighting the importance of representation in the workforce. Carmella Haswell reports

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Securities lending specialists reflect on macro events which have impacted the sector over the past 12 months, the opportunities this has created in European markets and where firms are investing to enhance their lending activities

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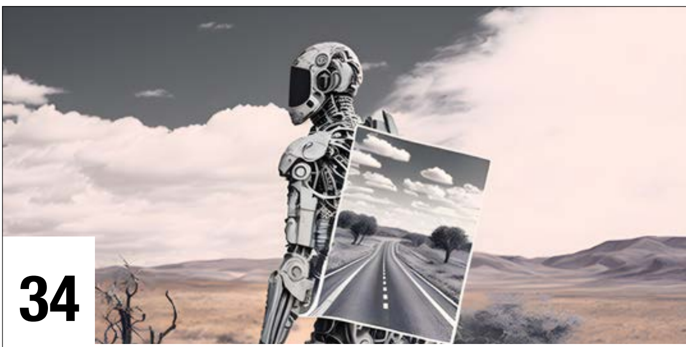
Delivering the tools to eliminate settlement fails

Banu Apers, Clearstream's head of Securities Lending and Borrowing, speaks to Bob Currie about their securities lending offering, asset class extension and steps taken to reinforce predictive analytics for lending activities



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It is time to update the infrastructure powering capital markets, argues Clear Street's head of prime financing Robert Sackett

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Industry people moves

Zodia Custody, an institutional grade crypto custody solutions firm owned by Standard Chartered, Northern Trust and SBI, has appointed Ronnie Jaworek as business development manager

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OCC securities lending volumes rise

The total securities lending volumes cleared on the Options Clearing Corporation (OCC) platform have increased 4.4 per cent year-on-year to 212, 269 trades for May 2023.

While the average daily loan value for securities lending trades cleared on the Chicago-based platform have risen 0.5 per cent YoY to US$127.9 billion.

For futures and options contracts, total volume for all futures and options cleared through OCC has jumped 9.5 per cent YoY to 949.0 million contracts for May 2023. These represent the third-highest monthly volumes in OCC's history, according to the Chicago-based derivatives clearing organisation.

Year-to-date average daily volume for all futures and options cleared on the platform through 2023 was 44.4 million contracts, up 6.6 per cent compared to YTD average daily volume through 2022.

The platform experienced a 32.5 per cent YoY hike in index options contracts for the month to 80.2 million and a 13.1 per cent YoY decline in cleared futures contracts to 4.5 million.

TMX collaborates with Clearstream to release new Canadian collateral management service

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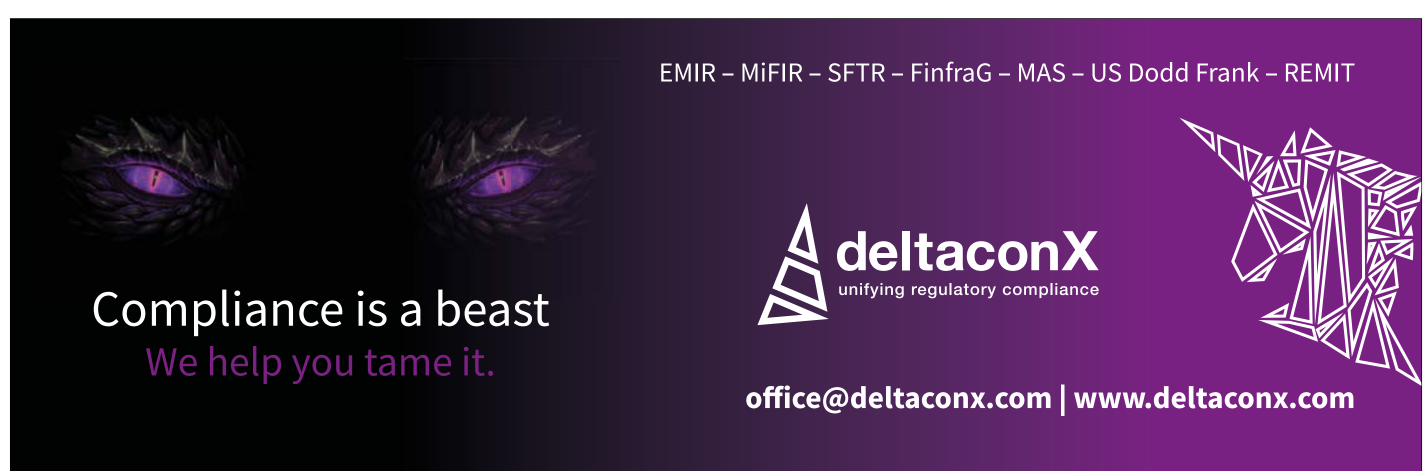
Sam Riley, CEO of Clearstream Securities Services, comments: "It is at the heart of Clearstream's collateral management strategy to provide our clients with reliable and scalable state-of-the-art solutions that reduce the frictional costs of trading through transparency and automation.

"In TMX, we have found an excellent partner to deliver our proven first-class triparty repo capability to the Canadian market. CCMS will deliver increased liquidity and efficiency while minimising exposures, supporting the Canadian market on its endeavour to move to T+1.

"Clients will also benefit from Clearstream's industry-leading technology and digital innovation, such as the cloud-based, digital collateral schedule capability known as OSCAR."

Broadridge announces new trades on intraday repo platform

Broadridge has announced that DRW, Societe Generale and another Tier 1 bank have



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executed trades on its intraday repo platform.

This builds on the first cross-border repo trades conducted on the platform in early April, which were executed with UBS and a global Asian bank as counterparties.

This Distributed Ledger Repo (DLR) platform applies Digital Asset Modeling Language (DAML) to execute and settle repo trades on an intraday basis, while reducing the operating cost and risk associated with repo trading, according to the New-York based financial services and technology company. This brings the benefits of distributed ledger technology to repo trading, supporting around US$1 trillion in monthly volume.

Broadridge's head of digital innovation Horacio Barakat says: "The global expansion of our DLR platform across both sell-side and buy-side firms is fostering a network effect of increased benefits and additional use cases. Broadridge continues to transform global repo market infrastructure by building our network and working with leading financial institutions like DRW, and Societe Generale."

"We're happy to be part of bringing a new trade type to the market that could help facilitate intraday liquidity needs," comments Greg Zielinski, COO of Societe Generale Americas. "By meshing distributed ledger technology with existing market settlement infrastructure, we can help usher in new flexibility for our clients via a secure and compliant channel."

DRW chief operating officer Mark Wendland adds: "We look forward to further developing the Intraday Repo Market, and we are excited to be part of this network. Intraday repo allows us added flexibility to manage liquidity and to help maximise use of capital, which was previously limited by technological barriers."

BME Clearing live on CO:RE Repo

SIX Repo has announced that BME Clearing, the clearing arm of Spanish market infrastructure operator BME Group which is majority owned by SIX, is now live on its CO:RE Repo market.

In June 2020, SIX completed the purchase of more than 93 per cent of BME Group for approximately €2.6 billion, with Madrid-based clearing house BME Clearing included under the transaction as the clearing division of BME Group.

SIX claims that on becoming a live participant on CO:RE Repo, BME Clearing is joining a market with a growing appetite for non-CHF currencies. "As a cash provider, BME Clearing can cater for this demand," says SIX.

It notes that the Spanish clearing house has access to a highly liquid market with daily outstanding volume of close to CHF 70 billion (€70 billion) as well as access to all CO:RE Repo participants via a single master agreement, the Swiss Master Repo Agreement. This repo trading platform accommodates repo trades in CHF, EUR and USD and across a range of different baskets.

Christian Geiger, head of repo and collateral management sales at SIX, says: "As a Euro cash provider, BME Clearing is joining our market at the right moment, as we have seen an increasing demand for euros – so BME Clearing is definitely adding value to our market and will be an attractive counterparty."

BME Clearing's head of clearing architecture Javier Aguila Llovera, says: "SIX Repo's platform helps us to manage our regulatory requirements related to liquidity and credit risk more efficiently.

"We appreciate the collaboration and support we received from the SIX Repo

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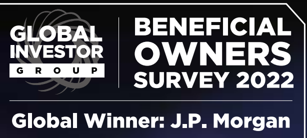

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team throughout the on-boarding process and now look forward to begin actively trading on CO:RE."

Wematch launches new digital workflows for trade desks

Wematch has added two new modules to its digitised dealing workflow platform to bring greater efficiency to securities financing trade desks and to reduce operational risk.

FRM Optimiser is designed to simplify, systemise and optimise the recall and substitution process of the principal composition basket, in addition to the bilateral collateral basket on securities-based lending financing trades. It will automatically compare recall and inventory lists with names in ongoing principal baskets and widen the scope of trade portfolio optimisation by factoring in bilateral collateral baskets placed with counterparties.

The aim, according to Wematch, is to create a central marketplace for lenders and borrowers, enhancing trade capture, ensuring that term sheets are well-defined and adhered to, and providing a complete set of lifecycle management tools.

The second module, Wematch's Total Return Swaps (TRS) Cash Flow Management, is designed to digitise and automate cash flow processes for users.

Wematch's Cash Flow Management uses the trade record built up from processing TRS Lifecycle events in the platform. This is then enriched with market data and corporate actions data to calculate cash flows.

Operating as an independent intermediary, Wematch aims to improve the transparency of reconciliation processes and to deliver efficiency and operational cost benefits through automation.

Brendon Johns, product manager at Wematch, says: "Our mission at Wematch is to refine and replace outdated manual processes with faster and more accurate alternatives. We have used our experience to bring applicable and transferable aspects of our toolset to the SBL financing market, a historically disjointed and underserved market place.

"Our new modules extend the reach of our services, allow for portfolio optimisation across products and markets, and will free up more time for financial institutions to focus on

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Ben Cullen, product manager at Wematch, concludes: "These latest additions to the Wematch portfolio underscore our commitment to working with end-user organisations to develop tools that meet their most important needs.

"Both modules have been developed in close collaboration with our customers and this is reflected in the scope of the functionality and the powerful outcomes they enable. We look forward to collaborating ever more closely with our clients to ensure our platform remains laser-focused on their business and operational requirements."

Securities lending revenues highest in 5 years for Q1 2023, says EquiLend

Securities lending revenue for Q1 2023 was the highest generating quarter since 2018, according to Matthew Ross, associate director of EquiLend Data and Analytics Solutions.

Reviewing the data for the year-to-date value — which measures results to the end of April 2023 — Ross indicated that "everything was up globally across both equities and fixed income".

Global lender-to-broker revenue for 2023 reached US$3.81 billion, according to EquiLend, representing a 27 per cent increase YTD. The Americas recorded a 38 per cent increase to US$2.30 billion over this period, with global equities jumping 28 per cent to US$2.92 billion and global fixed income rising 24 per cent to US$889 million.

Speaking at the 13th Annual Conference on Canadian Securities Lending, Chelsea Grossman, managing director and North American head of agency lending client management at State Street, stated: "It's never a dull moment in the lending market and Q1s have been particularly eventful."

Revisiting the noteworthy events to hit the financial markets over the past few years, Grossman noted how Covid-19 hit the world

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in 2020, which resulted in extreme market volatility, a focus on exchange-traded funds (ETFs) and sector-based borrowing in travel, retail and healthcare.

The Russia and Ukraine war commenced in Q1 2022, putting a strain on resources. Last year also saw an increased focus on electric vehicles and a rise in crypto — all occurring in a rising interest rate environment.

This year, the industry faced the Silicon Valley Bank and regional banking crisis, with the debt ceiling becoming "the most prevalent wrench in the market to date", according to Grossman. Despite this hindrance, firms continue to look forward to 2024.

From a data perspective, Ross believed that "increased revenue looks to be holding up". With regulatory changes in the pipeline, in particular the SEC's 10c-1 in the US, this is likely to present challenges for users. "But as a fintech firm we are well placed to help our clients," he continued.

"Ultimately it will lead to more data transparency, which will enable us to provide more actionable analytics and insights to our users."

During the Perspectives on Securities Lending panel, Brendan Eccles, global head of securities lending at Scotiabank, indicated that the industry should be reviewing broader central counterparty solutions when evaluating future technological enhancements.

He highlighted that capital is a "huge issue" and that the industry has not found a solution to help agent lenders in terms of their capital challenges.

In addition, Eccles advised the industry to explore streamlined distributed ledger technology (DLT) which could provide benefits when applied to corporate actions and recalls.

Clearstream and Proxymity launch digital general meeting service

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Proxymity has expanded its partnership with Clearstream to launch a digital general meeting announcement solution in Germany and Luxembourg.

The service is expected to go live by the end of the year and will use Proxymity's Vote Connect, the digital proxy service powered by Proxymity's investor communications platform, to deliver to markets.

Communication between issuers and investors has historically been managed through a range of different mechanisms and information sources. This has resulted in delays and a fragmented process for intermediaries and investors, according to the firms.

The central platform aims to automate issuer investor communication to resolve these issues and facilitate improved proxy voting and corporate event communications for all parties involved.

It is designed to enable issuers and their issuer agents to improve corporate event communications between intermediaries and investors by publishing "golden record" general meeting announcements directly to the issuer central securities depository (CSD), and onward to intermediaries and investors.

CEO of Clearstream Securities Services Sam Riley says: "At Clearstream, we are constantly striving for new and innovative services for our clients, making it easier for them to conduct their business smoothly and efficiently around the world.

"In expanding our partnership with Proxymity, we are delivering on this ambition once again, using digital technologies that are leading the way in compliance and best practice."

CEO of Proxymity Dean Little adds: "We are thrilled to continue our partnership with Clearstream, further expanding our digital investor communication platform into the German and Luxembourg markets.

"This collaboration will revolutionise the way issuers communicate their corporate events, ensuring compliance and enhancing efficiency in the proxy voting process. We look forward to making a positive impact on these strategically important markets and continuing to drive innovation in issuer to investor communication."

Bloomberg, MarketAxess and Tradeweb sign consolidated tape joint venture agreement

Bloomberg, MarketAxess and Tradeweb have banded together to establish an independent company, JV Company, through a joint venture agreement.

The joint venture will see the firms participate in the public procurement procedure to become a fixed income consolidated tape provider (CTP) in the European Union.

The initiative reflects the desire of all three parties to improve the fixed income ecosystem and make a "meaningful" investment in winning the tender for the European bond consolidated tape (CT).

Regulatory specialist at FINBOURNE Technology and industry veteran Neil Ryan will lead the CTP initiative. Ryan has more than 30 years of experience in various senior positions across public and private sectors, with expertise in the fixed income space. He will focus on producing a prototype that incorporates the expertise of the joint venture parties in fixed income markets and trade reporting, to be able to deliver a high-quality CT that will provide enhanced transparency and access to robust, reliable data.

Cloud-native financial data management firm FINBOURNE Technology has been selected by the parties as the technology infrastructure provider to build and operate the CT for the JV Company — following a detailed and rigorous evaluation process, which considered critical compliance, operational, technical and security aspects of a fit-for-purpose CT.

FINBOURNE will now work closely with the joint initiative to demonstrate the capabilities and features of its proposed CT platform.

Commenting on the announcement, Ryan says: "The time has come to provide the European fixed income markets with a consolidated tape that is led by an initiative with deep experience in low-latency data processing, cleansing, consolidation and publishing within a regulated framework.

"Our motivation is to improve transparency and spur electronification in the fixed income space. Our end goal is a cost-effective CT that treats both data contributors and consumers fairly, while enabling open and impartial access to meaningful and helpful data using existing infrastructure."

CEO and co-founder of FINBOURNE Technology Thomas McHugh adds: "We are pleased to have won the tender to work with these firms, which are deeply focused on quality data and are highly experienced in fixed income markets and running regulated Approved Publication Arrangements (APAs).

"Importantly, we see this as further validation of our modern, cloud-based, API-first technology, to deliver critical market data access and transparency."

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The tale of two businesses: how new leadership aims to deliver for clients

State Street's new heads Taryn Siglain and Patricia Hostin share their plans for the advancement of agency lending and prime services businesses, while highlighting the importance of representation in the workforce. Carmella Haswell reports

"The ongoing focus on DEI across the industry has not only opened the door to women joining financial services, it has created an environment in which they have felt valued and supported, where they can pursue their career aspirations to their fullest," says Patricia Hostin, global head of Agency Securities Lending at State Street.

Becoming new senior representatives of State Street, Hostin and Taryn Siglain joined the Boston-based bank earlier this year to spearhead the firm's core securities lending businesses, Agency Securities Lending and State Street Prime Services (formerly Enhanced Custody).

Hostin will oversee the entire agency lending business globally, working collaboratively across key business and support functions to manage the delivery of State Street's securities lending product. Siglain, as global head of State Street Prime Services, will be responsible for the development, execution and delivery of securities lending solutions.

With more than 35 years of financial services experience between them, Hostin and Siglain pinpoint the significance of representation within the workplace, having both witnessed female leaders in action. Reviewing her time on the trading floor, fresh out of her undergraduate studies, Hostin recalls a female leader who ran the cash portfolio management team at the time who "set an amazing example of a senior woman in a markets business".

Hostin continues: "I knew that she had found success and that gave me comfort that I could do so too. Representation matters, we have to see ourselves in our leaders. I hope to set an example for others to show that women and people with families can find success wherever they choose to look for it."

The representation of women in finance has improved significantly. The face of trading floors in particular has evolved, with women comprising a much larger segment of all types of trading desks. However, there is still work to be done.

Back when Siglain was starting out in the financial sector, she felt that women were forced to choose between a family or a career. She explains: "There seemed to be these assumptions that when women did have children, they weren't really focused on their career, or maybe they were taken out of the running for promotions, or fast tracking. From my perspective, they were often high performers and there was no need for that."

Siglain commends firms for the increase in partner leaves for those who want to start a family, therefore levelling the playing field. Through these benefits in the workplace, Siglain indicates that it not only lessens the burden for the person at home trying to juggle home life and transition back to work, but it also reduces the negative view of the mother leaving the workforce as now both partners can take that break to raise a family, normalising the balance between family and career. These positive steps have encouraged a significant improvement in the representation of women in senior positions that have young children.

"Look at State Street, we are here, they just hired me and Patty. Not only were we best for the job, but we are working moms, we both have toddlers at home," Siglain states. "I really hope that serves as an inspiration for employees, men and women, who want to have families and also want to focus on their career."

Shaping the future of State Street

State Street's Agency Securities Lending and State Street Prime Services businesses are two distinct lines that work in close collaboration to deliver for clients.

Providing customised custodial and third-party securities lending solutions, its agency lending programme manages all lending activities from pre- to post-trade; while its prime services business offers a prime brokerage-like experience with additional security, allowing clients to borrow and finance securities within a segregated custody account.

The Boston bank recently confirmed the rebrand of its prime services business, formerly known as Enhanced Custody. The company intended to clearly define the business in today's marketplace, following the evolution of the business from a more traditional, custody-based offering following the financial crisis, to a more prime-based offering today.

Although mindful of the obligations to their own clients, Siglain and Hostin will work closely together as their two businesses cross paths. State Street's Direct Access Model is an example of the collaboration of the two entities, where agency lending beneficial owners and Prime Services clients connect in a peer-to-peer model. "We are able to use our technology and our expertise in asset servicing to do it in a way that drives stability of the balance sheet and higher returns for our clients, but we are able to make it look and feel seamless to our principal model," Siglain confirms.

She continues: “Ultimately, it is important that we deliver innovative solutions for our clients and we do that as we invest in the end-to-end business model. But we also continue to stand in the middle to provide our expertise in financing solutions, as well as navigate the different market dynamics and regulatory landscape.”

Hostin indicates that State Street is investing its tech dollars heavily in an end-to-end business model. One element of the firm’s technology evolution is re-architecting the technology platform that drives the agency lending business. State Street aims to improve client confidence in trusting global systemically important financial institutions (GSIFI) to manage their financing, and reiterates its commitment to servicing the securities finance sector through its investment in the firm’s Agency Securities Lending and State Street Prime Services businesses.

“I am pleased to be joining at such a crucial time and to help shape the future of the agency lending business at State Street,” Hostin adds.

Key points of focus

With a 16-year career in financial services and a diverse background across treasury, resource optimisation, relationship management, strategy and trading, Siglain plans to use all aspects of her background to deliver for State Street clients and the firm. A key point of focus for Siglain will be to build the relationships internally while finding opportunities to collaborate across business lines to provide solutions.

For the first three months of her role leading State Street Prime Services, Siglain has been using meet and greet opportunities with clients as a tool to set the agenda for the next 12 months and to determine new products and new geographies to explore.

“Our global distribution model is really core to the business, not only for the Americas, but for EMEA and APAC as well. We are definitely focused on assessing our global presence and investing anywhere that is necessary”

Taryn Siglain
Global head of State Street Prime Services
State Street

Siglain explains: “Our global distribution model is really core to the business, not only for the Americas, but for EMEA and APAC as well. We are definitely focused on assessing our global presence and investing anywhere that is necessary. I'm really excited to get to ISLA with Patty, where we can meet all of our clients outside of the Americas, face to face.”

With complementary backgrounds in finance, both Hostin and Siglain have spent time in roles where they managed bank resources, sat on trading desks, and were responsible for long-term strategy and planning — Hostin explains that the pair became firm friends.

“Our clients expect thought leadership and an unwavering commitment to execution,” Hostin adds. “That's what I hope to deliver for our agency lending business.”

Hostin has a three-fold plan for State Street’s Agency Securities Lending business. First and foremost, Hostin will work to generate the best outcomes for her diverse client base and to be solutions oriented. Secondly, Hostin aims to offer the most commercial lending product in the market and make State Street the lender for first, second and last resort. Thirdly, she will look to expand the firm’s reach to new clients by delivering a “market-leading agency lending product”, coupled with all that the State Street platform has to offer.

Despite having been in their positions for a short period of time, State Street has made a positive impression on both Hostin and Siglain. “Taryn mentioned that a big selling point was the people,” says Hostin.“I cannot express how amazing the team has been with every interaction along the way. The people of the firm are such a testament to the culture and I'm really excited to join State Street. It's been just an absolute pleasure so far.”

With a plan of action in place for State Street’s core businesses, work continues outside of this to further a significant cause — diversity and inclusion (D&I).

Work to further advance D&I is of high importance, notes Siglain. “I'm looking forward to helping to drive some initiatives within our talent council and also within State Street's 10 Actions Against Racism,” she continues. “All of the work that State Street is doing across D&I was one of the key selling points for me when I joined and I have been really impressed with the firm’s commitment there.”

“Representation matters, we have to see ourselves in our leaders. I hope to set an example for others to show that women and people with families can find success wherever they choose to look for it”

Patricia Hostin
Global head of Agency Securities Lending
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European securities finance panel

Securities finance specialists reflect on macro events which have impacted the sector over the past 12 months, the opportunities this has created in European markets and where firms are investing to enhance their lending activities

Panellists

Grant Mansfield, director, head of trading, EMEA fixed income, equities and cash collateral investment, **BNY Mellon**

Danila Khanh Dinh, trading associate, Agency Securities Finance, **J.P. Morgan**

Dayna Chamberlain, trading associate, Agency Securities Finance, **J.P. Morgan**

Mark Jones, senior vice president, head of securities finance, EMEA, **Northern Trust**

Christian Schuetze, head of financing solutions, Europe, **State Street**

How do you assess the performance of European securities lending markets over the past 12 months?

Dayna Chamberlain: Market volatility has been a key determinant of the securities lending landscape. The series of macro events caused by the Russia-Ukraine war triggered a cost-of living crisis and fears of recession, which was worsened by the successive interest rate hikes implemented to combat rising inflation. These mounting macroeconomic pressures shifted short interest towards cyclical sectors with names predominantly within the consumer discretionary, real estate and banking sectors. Sovereigns also experienced a surge in demand as a result of the gilt crisis, which triggered tightening in the credit markets and a drain on collateral liquidity.

As we entered 2023, we saw a general reduction in revenue opportunities across equities as hedge funds became more conservative in their positioning, with the size and breadth of specials decreasing as markets recovered. We saw spreads widen across the credit market as a result of increased activity from systematic hedge funds, with liquidity taking a more prominent role in pricing to better reflect the risk profile of assets. Q2 2023 saw cost of capital and high expenditures begin to weigh heavily on balance sheets and, as such, we saw pockets of corporate action activity within distressed sectors as companies looked to raise cash to weather a potential recession.

Christian Schuetze: The last 12 months were once again characterised by a change in trade structures and goals. Our perception is that while demand for high-quality liquid assets (HQLA) remains unbroken, maturities continue to move from liquidity coverage ratio (LCR) to net stable funding ratio (NSFR) coverage. On the equity side, we see more stocks that are warm or special. The levels and, ultimately, the fee income are at a higher level.

Grant Mansfield: Quantitative easing has caused a compromise in supply for bunds and gilts, equating to increased utilisation and spread. In the corporate and emerging market space there has been a continuation of volatility and, therefore, spread has been present for more than two years due to various factors including Brexit, Covid, energy inflation due to the war in Ukraine, and the recent banking crisis. This led to sector-related interest in the equity markets. European indices witnessed heavy volatility and a large flight to quality, resulting in a need for collateral as equity sell offs left counterparts needing to cover their collateral obligations through securities lending.

In which European markets (by jurisdiction, asset class) do you identify strongest opportunities for growth of your lending business?

Mark Jones: We have witnessed significant growth in lending volumes and fees for US corporate bonds and dollar-denominated emerging market debt. With the Federal Reserve reaching the terminal rate, we would expect some greater traction in European credit markets as the European Central Bank (ECB) looks set to maintain interest rate hikes to combat inflation. Global recessionary fears should also start to emerge, driving greater activity in credit markets as corporate bond issuers are forced to endure higher funding costs.

Added caution on long bias strategies has reduced internalisation opportunities, increasing the need for borrows and driving demand for

supply. Furthermore, interest rate hikes have had a bearing on swap pricing, impacting the demand dynamic.

Schuetze: Although I don't have a crystal ball, I am convinced that we will continue to see high levels of volatility in the markets. Accordingly, trends change too quickly and you have to remain mentally flexible enough to be able to change course if necessary. HQLA will remain a central topic. I also expect strong impacts from the clearing obligation for pension funds.

Mansfield: With quantitative tightening having started, it is tempting to say that the spread due to illiquidity in gilts, and to a lesser degree in bunds, will disappear. But that will depend on the rate of tightening and the behaviour of the national debt management agencies. Well rated HQLA, if not special due to liquidity factors, can be used in term and cross-currency swaps to create spread. Despite the macroeconomic landscape proving difficult, the need for cap raising or expansion should re-establish itself. Firms still have a desperate need to raise capital to cover rising costs and we should see an increase in capital raisings from distressed firms, as well as the need to fund takeovers and growth, given that borrowing cash is now a lot more expensive. A direct correlation should see increased activity in the M&A space, with firms primed for takeover due to being cash strapped and hampered by debt.

Chamberlain: Over the coming year, there may be a bigger focus on macro and credit strategies, with hedge funds gaining short exposure via broader asset classes in lieu of traditional equity shorting as firms struggle to refinance their debt from historical low levels. While this presents an opportunity for increased utilisation across those asset classes, lack of transparency within the OTC market brings liquidity and settlement challenges.

The introduction of alternative supply pools also presents a potential opportunity for considerable growth, with non-traditional funds and the evolution of lending models within emerging markets, such as the Middle East, being our focus for 2023. The lack of established lending supply pushes fees higher than those seen in developed markets and, with the facilitation of short selling likely to increase trading volumes, demand for securities can be expected to grow.

Digitalisation also brings potential opportunities to mobilise non-traditional asset classes and markets, alongside a possible expansion of the assets accepted for collateral purposes, with tokenisation becoming a key concept.

Global financial markets have faced one of the most financially tumultuous periods entering 2023 since the end of the global financial crisis. What pressures and opportunities has this created for your securities lending business?

Danila Khanh Dinh: The past couple of years have been an exciting time for securities lending, experiencing fast-paced hikes since 2020, bond future volatility and collateral scarcity, then compounded with Russian invasion, a gilt crisis due to the UK mini budget in September 2022, Silicon Valley Bank events and the contagion into European banking assets. Credit markets have seen liquidity of collateral dry up. This has presented challenges across the industry as a result, with infrastructure strained as market participants adapt to handle the volumes of new trades and recalls. The start of this year saw a softening in the specials book as rallying indices

generated an unwind across many sectors. We have seen credit and macro strategies direct flow away from equity into credit to gain exposure to companies, and firms that are set up to support cross asset trading, with dynamic pricing and liquidity models and a strong automation foundation, have been able to adapt to these changes successfully.

Schuetze: Daily credit oversight and counterparty risk are two things our clients frequently ask us about, and their concerns are understandable. Thanks to our rigorous monitoring processes, paired with our more than 40 years of experience in managing lending programmes, neither of them had been an issue to us at State Street.

The real challenge lies in the current interest rate environment. Most loan programmes have a borrower default indemnification. The spread between value and price widens massively in the increasing yield environment, making indemnifications very expensive.

At the same time, however, we also see significant opportunities. These lie in both the lending and repo business. We were the first major custodian to become a Eurex Repo Clearing member earlier this year, which will help boost our liquidity tool kit and provide a full financing product suite to customers of the bank.

Mansfield: HQLA spreads and utilisation have increased with macro-economic changes — central bank easing has compromised supply in certain markets and interest rate rises create an environment that is healthy for certain counterparties to take positions. With a natural spread in bonds, the need to term trades diminishes and a book can stay shorter. In the credit markets, the Ukraine war and the banking crisis have simply added more volatility to a market that was already active. As we moved further into the year, with more confidence in equity markets, we have witnessed a return in activity and risk appetite. Despite the collapse of Credit Suisse and the banking sector initially being brought into question with concerns surrounding some of Europe's global systemically-important banks (GSIBs), strong statements from European leaders, as well as stronger capital reserves, brought the sector quickly back in line.

What impact has monetary tightening had over the past 6-12 months on lending opportunities and collateralisation strategy in Europe?

Mansfield: Tightening is something that is going to take spread out of some HQLA assets, specifically gilts and to a lesser extent bunds. Liquidity in bunds has been increasing for some time, but, in gilts, where supply is still compromised, tightening will have an effect, although the plan for £80 billion in 12 months is not aggressive. Monetary tightening, coupled with inflationary pressure fuelling recessionary fears leading to a market sell off in equities, brought about an increased need to borrow non-cash collateral. However, with a return in the yield curve, opportunities present themselves to capture additional spreads achieved from terming up cash collateral.

Jones: We remain highly-focused on counterparty risk. As such, we have taken action during the period, utilising multiple different measures to protect our clients from the headwinds noted. With market stress comes potential opportunity. Therefore, our trading desks have taken advantage of wider lending fees, while continuing to transact with

the highest-rated counterparts in the market. A general risk-off sentiment across the hedge fund community has created a de-grossing cycle with borrower balances softening somewhat. Specials demand has been more concentrated with macro environment concerns acting as the primary driver. Those companies most exposed to servicing high levels of debt in the midst of increased borrowing costs attract the strongest interest. The greater market volatility and investor uncertainty has dampening corporate event driven opportunities in Europe year-to-date. Additionally, as industry participants look to manage their binding constraints, the emphasis on regulatory capital friendly structures or more diverse collateral types is a continued theme that presents potentially positive opportunities.

What investments and adaptations to working practices have you made to sustain and grow your European securities lending activity in this environment?

Jones: We continue to invest heavily in our technology, our products and our people. We have invested to ensure our trading teams and our clients have access to comprehensive real time data and analysis which is critical to navigating in periods of volatility or uncertainty. As well as enabling us to manage the risk such an environment presents, it also allows rapid assessment of opportunities and provides our clients with comfort that they have full transparency into their programme and can use our data to contribute to the optimisation of their activity. It has become increasingly important to our clients to view lending as one part of a total portfolio approach, and by providing them with access to data and an integrated set of securities finance products, they have the tools they need to manage risk, fulfil their collateral obligations and generate meaningful returns.

Schuetze: As one of the largest agent lenders in the world, we constantly work on our setup to meet the needs of our customers.

A major step for us is the expansion of our continental European footprint. In addition to the Eurex Repo Clearing membership, we also have a strong local financing team and have extended our research footprint in the region. One of our core business objectives is to further strengthen the global State Street Financing Solutions business in continental Europe. In our opinion, the rather volatile current environment is supportive because it forces all of us to rethink our setups.

Chamberlain: With the continued focus on a streamlined end-to-end workflow, automated trading has been key in supporting increasing volumes, and we have adapted our operational processes to incorporate vendor solutions to enhance the efficiency of our trading workflow and proactively manage the number of breaks and fails. We have also been looking to grow our business through alternative trading platforms which have facilitated both price discovery and best execution.

The recent volatility has increased our focus on risk and control oversight, which has become crucial for sustaining a well-functioning lending business in this environment. We have configured key indicators to help us identify and track the risk associated with particular assets, and investment in this methodology has allowed us to differentiate our lending business through effective book management and risk-adjusted pricing.

What impact has monetary tightening had over the past 6-12 months on lending opportunities and collateralisation strategy in Europe?

Jones: Aggressive interest rate increases have been prevalent across many financial markets, but the ECB's monetary policy has perhaps had the greatest impact on sovereign debt repo and securities finance activity. We have witnessed a number of core European bonds trading with a specials premium while, more recently, liquidity conditions have become somewhat stressed as the ECB lowers its presence. The central bank has sought to reduce accommodative monetary policy and unwind their significant bond holdings bought as part of quantitative easing programmes. Moreover, increasing sovereign yields have resulted in lower prices and collateralisation challenges. To mitigate the risk, Northern Trust has sought to expand our collateral eligibility, looking at new asset types and trade structures; including the expansion of our pledge offering.

Schuetze: The tense financing market in the first three quarters of 2022 led to an imbalance between liquidity and scarce collateral. This became particularly clear when the ECB started raising interest rates. Money market rates have been slow to follow suit because demand for HQLA has been so high. This also underscores the importance of alternative sources of collateral such as peer-to-peer models.

The current inflation situation in the EU is unlikely to change in the near future, so the use of cash collateral is currently more interesting than in recent years and will remain so.

The expectation of rising interest rates increases short-term interest in EU bonds and offers lenders the opportunity to generate higher excess returns for their portfolios, while agent lenders are facing higher opportunity costs when using risk-weighted assets (RWA) through indemnification.

What expectations do your clients have from you as a service provider in supporting their commitment to sustainable lending and borrowing? Have recent market conditions and geopolitical stresses had an impact on demand for ESG-compliant lending solutions?

Mansfield: To meet our clients' expectations, BNY Mellon's securities lending programme is designed to be inherently flexible, so clients can align their lending programme parameters with their ESG strategies. Supporting our clients who have developed ESG and sustainability policies, BNY Mellon clients have transparency on ESG data points across their agency securities lending programme. Our programme capabilities provide visibility into securities lending, enabling clients to apply ESG scores to their lendable portfolio, their collateral and their cash investments.
The functionality draws on MSCI ESG Ratings delivered through BNY Mellon's Data Analytics platform, allowing clients to validate daily that the collateral they receive and the investments they make are within the tolerance levels of their own ESG investment policies. At an industry level, BNY Mellon is actively working with trade associations, ESG labelling bodies, policymakers and regulators to evolve best practices for the consideration of ESG factors in securities lending.

Recent market events and the geopolitical landscape have further highlighted that ESG policies will inevitably vary between clients as they assess financial risks and materiality in the context of ESG factors. As we have seen,

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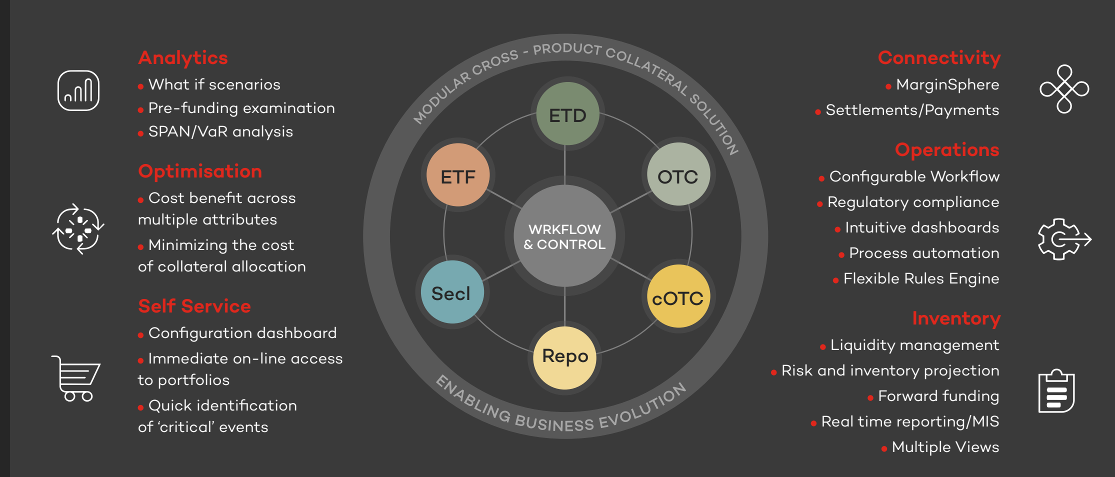

there is no single approach to ESG and this has only been further underscored by the current economic and geopolitical landscape.

Schuetze: ESG has been an important topic in the securities lending industry for a while, particularly in Europe. The last few months may have accelerated this trend somewhat, but the requirements are clear: transparency, compliance and integrity.

Socially responsible investment and ESG are important parts of our loan programme that support our clients' needs. The main issues that we discuss with clients regularly are around collateral schedules, voting and proxy voting, but also the effect of short selling on markets and portfolio performance.

Jones: Being able to support our clients' ESG approach is absolutely critical. If we go back a decade, ESG was a topic that came up in perhaps one in 10 onboarding conversations. Now it is every single one. The approaches remain varied from client to client, so we have focused on implementing a wide range of solutions that allow our clients to feel comfortable they can operate a sustainable programme with our support. The ability to exercise good corporate governance through voting at AGM or EGMs remains the most common requirement and we have a number of options that help clients to achieve that.

How do you assess the outlook for European securities lending markets for the remainder of 2022 and into 2023?

Schuetze: We expect an ongoing borrowing demand throughout all asset classes. The elevated volatility is an important factor for the derivatives markets which needs to be hedged. Clearing obligations increase stability and at the same time increase the demand for collateral optimisation. We see an ongoing trend to outsource non-core asset management functions.

Securities lending is one of these functions, and our clients and prospect clients are showing stronger interests in securities lending, given the alpha it can help portfolio managers to generate while these firms focus on maintaining a cost-effective operation that is laser-focused on what they do best — managing assets.

Dinh: Looking into the remainder of this year and into 2024, we expect the lack of conviction to continue, with the exception of a few key names that stand out. With many firms long cash, the need for rights issues and corporate actions may be limited to certain pockets driven by distressed names, the need for reorganisation and to repair balance sheet, along with reductions in scrip activity — with firms opting for cash-only payments. With the heightened focus on capital and RWA, new methods of mobilising assets with vendor partners, increased financing solutions opportunities, and emerging technologies such as digitisation and tokenisation impacting both ASF and collateral, market participants' ability to adapt their trading models will be key to whether they can capitalise on prospects within the next 18 months.

Mansfield: Regulatory capital and indemnification cost for securities lending and SCCL limits continue to remain challenging. Cleared repo volumes are continuing to trend higher and there remains an opportunity from both an increased collateral supply and regulatory perspective to become active across regions in the cleared repo space. The growing need for European lending CCPs has become increasingly important to help the market navigate these challenges.

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Delivering the tools to eliminate settlement fails

Banu Apers, Clearstream's head of Securities Lending and Borrowing, speaks to Bob Currie about their securities lending offering, asset class extension and steps taken to reinforce predictive analytics for lending activities

Clearstream is extending the coverage offered by its Automated Securities Lending (ASL) fails coverage programme, while also enhancing the analytics provided by its Data and Connectivity Solutions division through its Settlement Dashboard and its artificial intelligence-powered Settlement Prediction tool.

Automated lending facilities across CSDs

The traditional ASL service has been live for more than 20 years and regularly enhanced and updated over this period. It provides overnight and intraday lending to enable clients that subscribe to the ASL service to source securities in the instance of settlement failure at Clearstream's International Central Securities Depository (ICSD). This fully automated service, with Clearstream acting as guarantor, protects lenders against counterparty risk should a borrower default on its obligations under the terms of the ASL programme.

"The streamlined onboarding and simplified legal framework allow all Clearstream ICSD clients to participate as lender or borrower in an anonymised structure," says Apers. ASL is also part of its cash financing solutions and accessible to all Clearstream clients.
To extend its coverage, Clearstream released a new fails coverage solution called ASL principal at the end of 2022. This product is Clearstream's cross-(I)CSD solution designed to draw on a single pool of liquidity across the organisation, enabling settlement fails coverage not only at the ICSD (as traditionally offered through ASL), but also for trades settling in central bank money through Clearstream's CSDs for the German and Luxembourg markets which are routed to settle centrally at TARGET2-Securities (T2S), the pan-European securities settlement platform owned and operated by the Eurosystem.

Under this programme, Clearstream offers automated mechanisms to detect potential trade settlement failures. It identifies whether the required securities are held within the lending pool — lendable assets supplied by lenders within the ASL principal programme — and loans are made on a title transfer basis to Clearstream, acting as single counterparty, with collateral transferred simultaneously to the lender on a pledged basis. These securities can then be loaned to the borrower to cover failing settlements.

"ASL principal is a unique solution that is integrated into our harmonised CSD and ICSD solutions, enabling clients to borrow or lend from a single pool of securities regardless of their settlement or custody location," explains Apers. ASL principal combines the automated operational efficiency of the longstanding ASL service with the simplicity and surety offered by having Clearstream acting as the contractual counterparty to the loan. In this programme, Clearstream acts as a single counterparty to all lenders and borrowers, ensuring the anonymity of the programme.

As with ASL, this service is connected to Clearstream's integrated collateral management solution which can automatically optimise the allocation of their liquidity across settlement locations and triparty collateral management activities.

"This forms part of our objective to bring fragmented liquidity pools from a securities assets perspective together into a single location," says Apers. "That is creating a virtual pool of assets from a lender's perspective that can be applied for settlement fails coverage."

Asset class extension

This development is part of Clearstream's wider strategy to extend asset classes within the fails coverage and strategic lending programmes. With close to €17 trillion in assets under custody at the end of Q1 2023, Clearstream has grown beyond its early roots as Cedel, established 50 years ago primarily as a eurobonds house. Currently, Clearstream holds equities valued at more than €5.6 trillion in custody.

Additionally, more than 50 per cent of European exchange-traded funds (ETFs) are held in custody through Clearstream Fund Services. In April 2023, Clearstream Fund Centre established a new bank in Luxembourg dedicated to servicing institutional investors in investment funds and ETFs, with a focus on asset safety, automation and operational efficiency for fund investors.

Apers identifies strong demand for equities and ETFs to meet fails coverage requirements at CSDs settling via the T2S platform. This illustrates the value of extending fails coverage at Clearstream, from a single pool of loan securities via the ASL principal service. "We have been planning strategically to expand our lending solutions across settlement locations, via ASL principal, to meet the needs of participants in these markets," says Apers.

This asset class expansion represents a core part of Clearstream's

2023 development strategy, extending the range of securities and loan availability offered through the fails coverage programme, but also making a wider pool of securities available to clients via the strategic lending programme, ASLplus.

ETF lending within the ASL principal programme reflects a growing interest in lending ETFs as an asset class. Currently, this is still a relatively modest proportion of overall global lending activity, accounting for perhaps €150 billion on loan balances. But with total investment in ETFs globally now at close to €8 trillion, ETF lending is expected to increase as a source of revenue generation on the investment portfolio and as a mechanism for reducing settlement fails.

"We offer well-functioning, high-STP fails coverage programmes with a strong depth of liquidity and heavily diversified loan pools that can oil the chain and raise the velocity of securities movements"

"Regulators have taken a close interest in settlement efficiency in the ETF segment, recognising the need to reduce fail rates for this security type but also recognising that trades can fail for longer," says Apers. "Whereas the average duration for a failed equities trade may be 1-2 days, for ETFs the average is typically 3-4 days. Through our asset class extension programme, and by diversifying our loan pool by continuing to add new lenders, Clearstream is playing a central role in improving efficiency in this market segment."

From a financing standpoint, broker-dealer firms are also looking more closely at ETF holdings as part of a wider pool of assets that can be mobilised to access liquidity through collateralised funding transactions.

This aligns with the strength of Deutsche Börse Group across the ETF value chain. Eurex offers trading services for a range of ETF-referenced derivatives, Clearstream Fund Services offers a sophisticated ETF infrastructure, while providing asset servicing for more than €622 billion in ETF assets, and Deutsche Börse-owned Qontigo provides indexing, analytics and risk solutions to a growing number of participants in the ETF marketplace.

Industry commitment

These initiatives collectively align with the efforts of the International Securities Lending Association (ISLA) and other trade associations to reduce settlement fails across the market. "ASL and ASL principal form an integral part of this movement to drive up settlement efficiency through a range of mechanisms, including auto partialling and hold and release," explains Apers.

Automatic partial settlement, also known as autopartialling, is a mechanism that allows part of a failing transaction to settle on an incremental basis. The T2S settlement platform offers a partial hold release function, and CSDs have the ability, under the Central Securities Depositories Regulation (CSDR), to "hold and release" settlement instructions, releasing segments of the original settlement amount. This enables trades to settle partially, rather than being fully failed and having to be resubmitted for settlement.

As this relates to securities lending, loan instructions are input and flagged as "HOLD" until the collateral is received, thereby enabling pre-matching of the settlement instruction. However, this can bring additional challenges when dealing with extended chains of instructions where assets may need to move through complex custody arrangements.

Cultural values

Given the interconnected nature of securities trading markets, a settlement failure can trigger multiple fails in a chain of back-to-back transactions. Depending on the tools employed across the trade flow, such as shaping or partialling, the scale of the failing transactions can quickly escalate.

Since the introduction of fails penalties under the CSDR settlement discipline regime in February 2022, unanticipated delivery failures

can result in fines amounting to tens of thousands of euros per day for the failing party.

This not only leads to unnecessary financial losses and a major resource commitment to resolve the settlement discrepancies, but it can also cause reputational damage and a heavy strain on trading and operational relationships. Few firms wish to deal with a failing counterparty when trading in size or when placing trades of high strategic importance.

On a broader scale, a failure-prone marketplace erodes the trust of market players and may drive participants to other locations which offer greater liquidity and more reliable securities deliveries. This failure incurs costs for everyone in the market and fuels an operational culture which can perpetuate settlement risk. For example, an unexpected platform or system failure may result in the non-delivery of a security, triggering a cascade of downstream settlement failures. On other occasions, the price of a bond may change dramatically, leading firms to identify an economic benefit from retaining the security and failing to deliver it for settlement. Although this is a rare occurrence, it is a natural consequence in a post-trade environment where there is insufficient commitment made to address settlement risk.

"To eliminate this operational inefficiency, we offer well-functioning, high-STP fails coverage programmes with a strong depth of liquidity and heavily diversified loan pools that can oil the chain and raise the velocity of securities movements within the system," says Apers.

This will become even more important as markets transition to shorter settlement cycles, as witnessed with the EU's shift to T+2 under the first tranche of CSDR in 2014. Settlement efficiency has returned to the centre of the industry's development planning as the US and Canadian markets prepare for T+1 equities settlement in May 2024, with other major markets expected to follow at some point thereafter.

Settlement monitoring and predictive analytics

Clearstream's efforts in securities lending have recently also gained an additional boost by leveraging Clearstream's established data insights and capabilities. The in-house data scientist team has developed new data solutions for clients to monitor and even predict their collateral, lending and settlement activities.

The Settlement Dashboard provides insights into the clients' past and present settlement performance, as well as the primary factors contributing to settlement fails. Additionally, the Settlement Prediction tool provides forecasts regarding the likelihood of an ISIN settling on time or potentially failing.

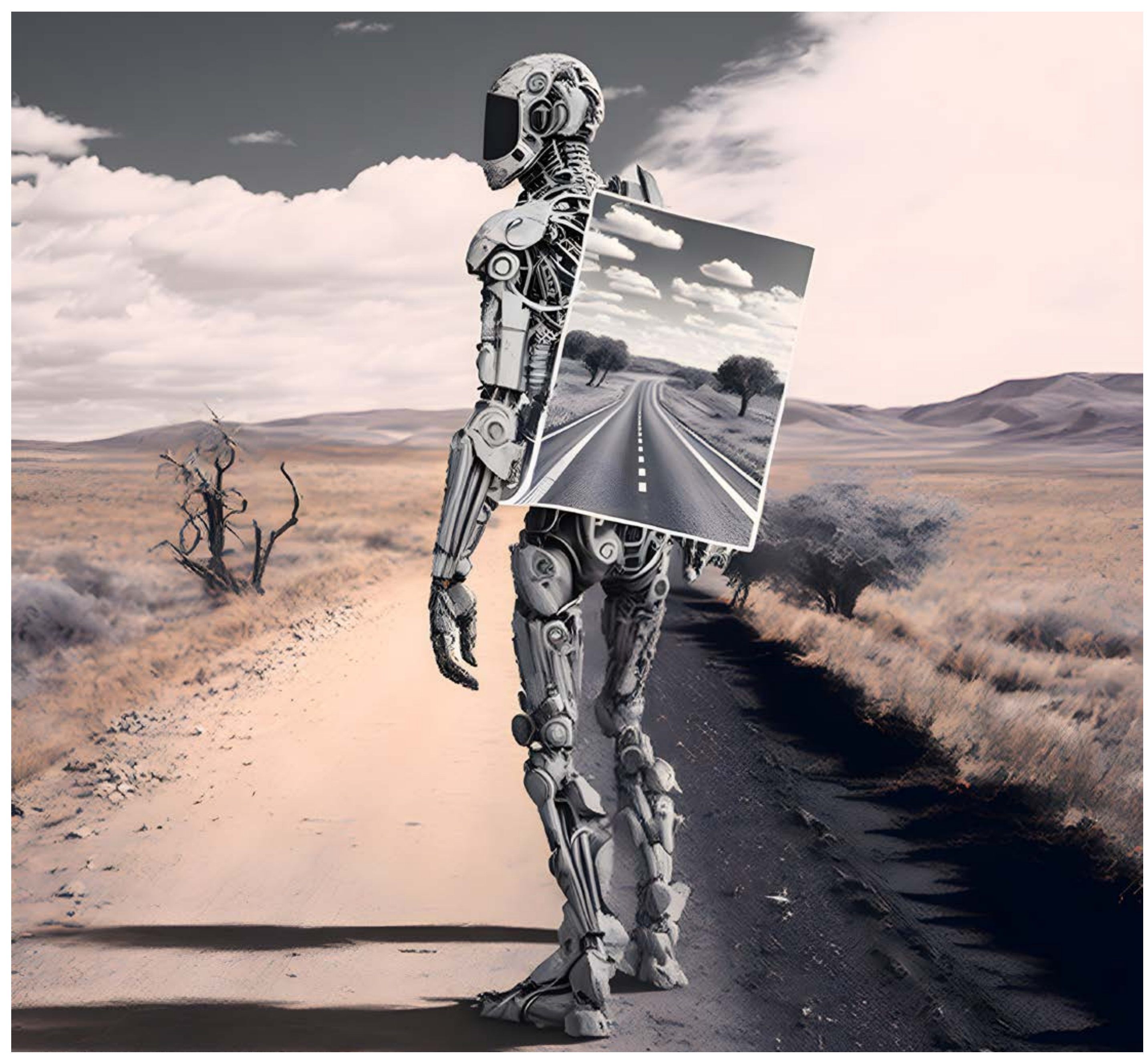
"Our intelligent settlement data services help clients to focus on exception management and to review operational processes," says Apers. "The ability to forecast settlement failures is important to mitigate sources of settlement risk and to reduce the financial impact of cash penalties."

Back-office operations can refer to these forecasts throughout the day to prioritise actions and target early intervention for trades flagged as likely to fail. The interactive visualisation tool in the Settlement Dashboard provides a wide range of views, including critical markets, asset classes and counterparties, while enabling clients to benchmark their settlement efficiency against their peers.

These features complement a wider suite of regulatory reporting services, including a settlement fee reporting service that enables users to monitor their compliance with the CSDR settlement discipline regime. Additionally, Clearstream offers a delegated reporting service for the Securities Financing Transactions Regulation (SFTR), linking to the major trade repositories, along with an SFTR reporting API for users who wish to manage their own SFTR data requirements and reporting.

"We are currently developing further data solutions for securities lending and are planning to launch additional solutions later this year," says Apers. Lenders and borrowers will be able to view their activity in near real-time, and lenders will have the opportunity to change the composition of their lending pools depending on the historical and recent performance of their lendable assets.

In closing, Apers notes that Clearstream offers flexible, safe and scalable solutions wherever customers wish to engage in the lending or borrowing of securities or to post or collect collateral from any trading or clearing counterpart. "With access to unique integrated services such as ASLplus and Eurex Repo's GC Pooling, collateral, lending and liquidity solutions, this provides a comprehensive set of services for all treasury and collateral management needs," she concludes.



Seizing opportunities in the evolving prime brokerage landscape

It is time to update the infrastructure powering capital markets, argues Clear Street's head of prime financing Robert Sackett. Firms that answer the call to modernise will see fewer bumps as the May 2024 deadline approaches for T+1 implementation in the US and Canada

"To meet the accelerated settlement timeframe, it is critical that market participants eliminate manual processes and maximise automation in the post-trade pre-settlement space," stated Valentino Wotton, head of institutional trade processing at the Depository Trust & Clearing Corporation (DTCC), reflecting on the launch of a joint initiative that DTCC has established with Nomura Research Institute to provide automated central matching facilities for cash securities transactions in Japan.

Wotton was cautioning that market participants should be well into preparation for the shift to T+1 in the US and Canada, which is rapidly approaching in just under one year. He is far from the first to warn about the stress that outdated infrastructure will put on capital markets.

Various estimates put the size of global capital markets at US$118 trillion to US$125 trillion a year and counting, but much of the industry has not taken advantage of technological advancements and still operates in the past. While the front office of trading organisations is typically lean and therefore less impacted by volume spikes, the middle and back office feel mounting pressure from increased processing speed and volume requirements.

At the same time, asset managers, banks and insurers have been under increasing regulatory pressure to enhance trade-related accountability and are demanding more from the sell-side. This means that market participants not only need to keep pace with fast-growing trading volume and increasing complexity, but they are expected by their clients to enhance reporting services.

In addition to the approaching deadline for T+1, US bank regulators are preparing to issue a notice updating US capital rules, known as Basel III Endgame, with the implementation date expected to be 1 January 2025. As the deadline approaches, measures to reduce counterparty and trading risks will be an important focus for large banks, which may look to further cut prime brokerage clients and services in anticipation of the new regulations.

These changes are coming to a head. The shrinking prime industry and evolving regulatory system, coupled with a lack of innovation over the past 20 years, has created great opportunities for those invested in developing the technology to support prime brokerage.

Looking under the hood

The multi-trillion dollar capital markets industry is the backbone of the global economy, but it still relies on mainframe technology from the 1980s. The result is fragmented systems and interfaces that leave market participants struggling to react to market changes and meet the needs of data-hungry investors and regulators.

How is this possible? The mainframes that have supported global capital markets for decades were built to answer specific questions at a specific point in time. Over the years, modern technology has been layered on top of the antiquated infrastructure, only providing a temporary solution. Similar to building a new house on top of an old foundation, sooner or later the base will give way and the whole structure will crumble.

Put simply, the silos have calcified over time to the point where it is easier for humans to talk to each other rather than find a way for the technologies to communicate. This tech debt creates broken processes that form the operational inefficiency that plague firms today.

Investors, like all consumers, have become accustomed to on-demand service. They expect to be able to react quickly to market events and are looking to expand into alternative asset classes like crypto. Prime brokerages are challenged to keep up with these demands and provide the granularity, data visualisation and user experience that investors and regulators need.

Global settlement changes

While global regions — including the US, Canada and India — announce their intention to shorten the settlement cycle, the Association for Financial Markets in Europe has also launched a task force to explore whether Europe is right to follow the move to T+1.

The antiquated technology that dominates the industry today will bring mainframe batch cycle times in the compressed settlement cycle into question. Decreasing the number of days between execution and settlement will reduce counterparty, market and credit risk across the settlement cycle, but the bulk of the cost introduced by the move to T+1 will be borne by broker-dealers, clearing firms and prime brokers.

Moreover, workflows will need to be reconsidered to reduce settlement failures and allow the move to T+1. In Europe, settlement failures have remained particularly high since the pandemic, fuelled by market volatility and ongoing pressure on a smaller number of operations staff. Though the latest data shows a promising improvement in equities fail rates, fails remain a significant concern for both regulators and institutions.

Adding to the pressure is the new Settlement Discipline Regime (SDR), which enforces penalties for failed trades in an effort to improve settlement discipline. Penalties range from 0.5 to 1 bps and apply to securities that are traded on an European Economic Area (EEA) exchange or cleared in an EEA central counterparty. Under these rules, central securities depositories impose the penalties on the counterparty responsible for the failed trade.

In his communication on trade affirmation, DTCC's Wotton continued: "To meet the accelerated settlement timeframe, it is critical that market participants eliminate manual processes and maximise automation in the post-trade pre-settlement space. Specifically, the SEC highlighted that institutional trades must be allocated, confirmed and affirmed as soon as technologically possible and no later than trade-date, referred to as same day affirmation."

A DTCC report found that brokers will see significant challenges and costs in realising T+1 and they will need to address legacy technology and external messaging challenges immediately. The throughput and integration demands for modern clearing platforms are not easily navigated in large organisations, especially when replacing a legacy solution in-flight.

That pressure is reinforced because many investors are not engaged on T+1 and risk overestimating the ability of their service providers to help them to be ready. Overall, the DTCC report found that only 46 per cent of the market expects to be ready for T+1.

With urgency comes an opportunity in the capital markets. Firms that answer the call to modernise and spend 2023 coordinating with compliance, working with regulators, and upgrading and testing their end-to-end systems will see fewer bumps as May 2024 approaches.

A shrinking industry

Adding fuel to the fire is the changing nature of the prime brokerage business and the regulatory and reporting demands that confront the prime broker community. This pressure comes as services diminish and innovation and investment disappear, with several major primes leaving the business altogether and other independent primes being acquired.

Industry participants are preparing for Basel III Endgame, which is anticipated to be the most significant change to US banking regulations since Dodd-Frank and the Consumer Protection Act. The expected notice of proposed rulemaking (NPR) will have extensive implications for economic growth, credit availability, liquidity and market stability.

Basel III Endgame will change how much capital firms need to hold against credit, market and operational risk exposures and is designed to make capital requirements more risk-sensitive while reducing variability of risk-weighted assets (RWA). This brings liquidity coverage ratio (LCR) requirements to top of mind and is expected to substantially increase aggregate capital requirements.

Whether the drivers are changing trading conditions, new capital requirements, or shifting macroeconomics, ejecting smaller clients seems to be the preferred path for firms that have not made the necessary investments to upgrade their legacy technology estates. Dependency on highly manual processes means that these firms cannot operate profitably with smaller clients, or with clients that have more sophisticated risk profiles or demanding trading strategies. Rather than service these clients properly, the dominant philosophy seems to be that the needs of the prime broker outweigh the needs of their clients.

This cycle of cutting services has been an ongoing feature of prime brokerage for the past decade. This pattern is destined to continue without a real move to invest in modern technology to manage risk in today's markets. Modern technology allows for automation, data insight and scale in a variety of market conditions, driving efficiency and reducing operational frictions.

Building market structure for the future

To operate at peak efficiency, banks and brokers must reduce the

manual processes that increase risk of error and operate in silos in favour of technology that empowers users to make smarter decisions and to identify potential risks throughout the trading process.

Simplifying the technology behind trading and post-trade functions can transform this from a cost centre to a competitive advantage. But, for many firms, this upgrade would require rewriting many systems, with significant technical debt, massive resourcing and planning costs — a daunting project with low chances of success.

Modern, high-performance computing coexists with COBOL, and microservices with mainframes. But as the value of data continues to rise, those that invest in the technology and capabilities to keep up with fast-paced, intraday market changes will come out on top.

It is time to update the infrastructure powering capital markets. A single-source of truth platform has the potential to optimise operations across teams, asset classes and geographies, reducing cost, complexity and risk. In turn, this makes it easier for emerging managers, professional traders and institutions to access capital markets.

To keep up with the accelerating pace of modernisation, firms will need to invest in technology to meet the needs of investors and regulators. Those who do so will be part of building the modern, scalable future of capital markets — improving access, speed, and service for all participants.

"The shrinking prime industry, coupled with a lack of innovation over the past 20 years, has created great opportunities for those invested in developing the technology to support prime brokerage"

Robert Sackett
Head of prime financing
Clear Street

Moves across the industry from ISLA to ICMA, Bloomberg to Zodia Custody

The International Securities Lending Association (ISLA) has appointed Lee Davidson as chief operating officer, effective 1 June. He replaces Jamila Jeffcoate, who has held the position since 2020.

In the role, Davidson will be responsible for ISLA's operational activities and daily management of the business.

Davidson has more than 15 years of experience in the industry, and joins ISLA from fintech firm Zeal Group where he was head of global operations.

Prior to this, Davidson spent almost six years with Australian banking firm ANZ as both a senior finance business partner and director of strategic delivery. He has also held roles at Deutsche Bank and ABN AMRO Bank.

Andrew Dyson, CEO of ISLA, says: "I would like to thank Jamila for her dedication and support over the past three and half years; she has been instrumental in helping to shape much of the organisation we see today.

"While her departure is a loss for ISLA, the association continues to grow and evolve, and [is] therefore delighted to welcome Lee to the team for the next phase of our development."

Zodia Custody hires Jaworek

Zodia Custody, an institutional grade crypto custody solutions firm owned by Standard Chartered, Northern Trust and SBI, has appointed Ronnie Jaworek as business development manager.

Based in London, Jaworek will report to Richard Clark, chief revenue officer.

She joins the firm from a four-year term with Standard Chartered Bank's financing and securities services team, where she was most recently posted as an associate. Previously, Jaworek won the Rising Star award at the Securities Finance Times Industry Excellence Awards in 2022.

Commenting on the announcement, a Zodia Custody representative says: "We believe that Ronnie's expertise and remarkable track record will contribute immensely to our continued growth and success. Welcome to the Zodia family, Ronnie Jaworek, we are excited to have you onboard!"

Clare Gehrhardt has departed from her role as head of business development for Bloomberg's Regulatory Reporting Services after three years with the firm.

Based in New York, Gehrhardt led a team of global regulatory experts responsible for embedding regulatory intelligence into the Bloomberg Regulatory Reporting Services suite.

She joined the financial data distributor in 2020 as a North American regulatory specialist, where she focused on Commodity Futures Trading Commission (CFTC), US Securities and Exchange Commission (SEC) and Canadian regulations to implement across the Rhub and Assurance product suite.

Previously, Gehrhardt spent eight years working for The Depository Trust & Clearing Corporation (DTCC), where she was a product manager implementing global reporting solutions.

In this role she worked on many data

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harmonisation efforts internally and externally, including leading the responses to the CPMI-IOSCO data harmonisation efforts on behalf of DTCC.

Euronext Clearing has appointed Roberto Pecora as its new chief executive and general manager.

Pecora will take over the helm at the multi-asset clearing house from 3 July and will be based in Rome. He will replace Marco Polito, who stepped down as CEO of CC&G following the general assembly held on 27 April.

He joins from Societe Generale, where he was CEO and general manager of SGSS Spa, the Italian securities services arm of the French-owned international bank.

Euronext acquired Milan-based clearing house CC&G as part of its acquisition of Borsa Italiana from London Stock Exchange Group, which was finalised in April 2021 for a total consideration of close to €4.4 billion. In the post-trade infrastructure space, this deal also gave Euronext ownership of Monte Titoli, the Italian central securities depository.

In a public statement, Euronext indicates that Pecora will lead Euronext Clearing's plans for European expansion, which will involve extending Euronext Clearing to all Euronext markets, beginning with equities from the final quarter of 2023.

He will also front the day-to-day management of the CCP, including engagement with its clearing members and financial supervisors, overseeing the clearing house's activities across its offices in Milan, Paris, London and Rome.

In doing so, Pecora will become part of the exchange group's post-trade leadership team headed by Anthony Attia.

The International Capital Market Association has elected Janet Wilkinson, managing director and head of global markets institutional sales for EMEA at RBC Capital Markets, as its new chair.

She will replace outgoing chair Mandy DeFilippo, who has come to the end of her term in fronting the capital markets industry association.

Jean-Luc Lamarque, global co-head of primary at Crédit Agricole Corporate & Investment Bank, becomes the Association's deputy chair.

Additionally, ICMA members elected another seven new directors to its board at this year's annual general meeting and conference taking place this week in Paris.

These are Gareth Allen, managing director and global head of investment and execution at UBS in London, Eila Kreivi, director and chief sustainable finance adviser at the European Investment Bank based in Luxembourg, and Reiko Hayashi, director and deputy president of BofA Securities Japan in Tokyo, which was previously Merrill Lynch Japan Securities.

Other newly elected members of the ICMA board are Heleen van Rooijen, head of finance and control at Nederlandse Waterschapsbank in The Hague, Malie Conway, head of global clients and growth markets at Allianz Global Investors based in London, Intesa Sanpaolo's head of global primary markets and solutions Cristiano Maffi, and William Weaver, head of EMEA DCM and Syndicate at Citigroup Global Markets in London.

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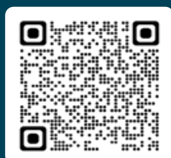

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