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Gaining a foothold in the Middle East

SEC publishes final 10c-1a reporting rules

On 13 October, the US securities markets regulator published its 10c-1a Final Rule designed to promote transparency in US securities lending markets

Securities Finance Technology Symposium

Market participants gathered in London to discuss the most prominent challenges and opportunities within the securities finance space, as reported by Carmella Haswell and Lucy Carter

Full settlement efficiency could result in ‘unreasonable level of rigidity’

The European Central Securities Depositories Association (ECSDA) Settlement Working Group has released a discussion paper outlining what it has found to be the root causes of settlement fails in Europe.

The paper, entitled ‘Settlement efficiency considerations’, has been published a year and a half after the implementation of the Settlement Discipline Regime.

ECSDA’s report includes preliminary analysis on the topic from a central securities depository (CSD) level, along with recommendations to improve efficiency in Europe without reducing the volume and value of transactions to be settled.

While CSDs aim to improve settlement efficiency, as fails can result in undue costs, transaction friction and, ultimately, systemic risk, ECSDA states that allowing for a lower level of fails is “preferable” to full settlement efficiency.

The paper explains that the latter could result in an “unreasonable level of rigidity” in financial markets, along with high costs for pre-funding and technology upgrades. “A certain level of tolerance is instrumental to the well-functioning financial markets aspiring for high levels of liquidity and settlement velocity,” it affirms.

The report concludes that a lack of securities remains the main reason for settlement fails, however ‘on hold’ instructions, a lack of matching instructions and late matching are also cited as considerable factors. Additionally, structural, national and market specifics can play a part in settlement rates, something which the paper affirms “can hardly be influenced by CSDs or their participants”.

To reduce fails, ECSDA suggests a greater use of the tools offered by CSDs when available, such as partial settlement and partial release capabilities, and recommends that CSDs consider making further service tools available to clients.

Additionally, CSDs should engage with market stakeholders to assess settlement efficiency data.

The majority of ECSDA’s recommendations are around CSD activities. However it notes that “improvement may also be largely achieved by intervening at other levels”, improving end-to-end processing efficiency and increasing the use of automation from trading to settlement.

HSBC goes live on Broadridge’s sponsored repo solution

HSBC goes live on the newly launched sponsored repo solution built on Broadridge’s DLT enabled Distributed Ledger Repo (DLR) platform.

Broadridge says the milestone represents a ‘major leap’ towards delivering substantial benefits to clients.

The firm aims to reduce settlement costs, streamline processes, enhance scalability and decrease operational risks through the use of distributed ledger technology (DLT) and smart contracts.

HSBC is the second client to go live since the launch of the sponsored repo solution in early October.

John Farrell, Americas head of markets operations at HSBC, says: “Digitising our existing sponsored repo trade flow and seamlessly integrating it into Broadridge’s DLR tech stack empowers us to enhance efficiencies, mitigate risks of transaction failures and significantly lower settlement costs.

“We are committed to exploring innovative avenues to reduce operational risks, and we believe this platform will be instrumental in achieving our objectives."

Horacio Barakat, head of digital innovation at Broadridge, comments: “We are delighted to announce the next phase of Broadridge’s ground breaking sponsored repo solution, which leverages distributed ledger technology to empower clients with operational efficiencies and substantial reductions in settlement costs.

“This marks another significant milestone in our journey to revolutionise global repo market infrastructure, underscoring the immense value and transformative potential of DLR. We are equipping leading financial institutions with the capability to lower risks and operational expenses, while unlocking enhanced liquidity.”

Saudi Exchange launches single stock options

Saudi Exchange has launched single stock options (SSOs) contracts which are available to trade from 27 November 2023.

Investors are now able to trade SSOs on four listed stocks as their underlying assets, according to the Saudi Arabia stock exchange.

SSO contracts are the third derivatives product to be introduced on the Saudi Exchange and will be cleared by the

securities clearing centre company Muqassa.

The first tranche of SSOs will be based on Aramco, Al Rajhi Bank, Saudi Telecom and Sabic.

EquiLend launches Orbisa data on Snowflake Marketplace

EquiLend has launched Orbisa securities lending data on data cloud company Snowflake Marketplace.

The move aims to provide hedge funds and buy-side firms a view into active securities lending markets worldwide.

It has the ability to analyse a range of securities lending metrics for more than 186,000 individual securities, according to EquiLend.

This collaboration aims to help market participants gain transparency across their portfolio, add depth to their trading analysis and validate market sentiment across the wider industry.

Nancy Allen, global head of data and analytics solutions at EquiLend, says: "Clients and market participants across all regions require robust and transparent data to make informed trading decisions, and we see this integration with Snowflake as a transformational development in the securities lending industry."

DORA to drive significant change

Sell-side firms are making 'significant changes' to how they approach third-party risk management (TPRM) to meet the requirements of the EU's Digital Operational Resilience Act (DORA), according to an Acuiti study.

'Third-Party Risk Management in the Time of DORA' was produced in partnership with Compass Partners and is based on a survey of executives from 106 different firms, predominantly from the sell side.

According to the survey, more than nine in 10 sell-side respondents reported that they will have to make 'major' changes to how they manage third-party risk to meet the requirements of DORA — a new regulation that firms are facing with regards to TPRM. These changes are focused on how firms map, monitor and manage third-party relationships.

DORA is intended to ensure that firms have the operational resilience to deal with cyber-attacks and other issues threatening the operations of their information and communications technology stacks.

The regulation will apply to more than 20,000 EU regulated entities and has an extra-territorial impact for any firms with operations or activities in the EU.

For a number of firms, especially those on the buy side, such as hedge funds and proprietary trading firms, DORA will be an entry point into formalised third-party risk management, says Acuiti.

Some of the most significant changes under the new regulation include the requirement to have exit strategies for critical vendors — currently only 17 per cent of sell-side respondents have this in place.

Another change facing firms in scope for DORA include the mapping of nth party relationships; only 39 per cent of survey respondents currently complete this activity.

Other key challenges faced by firms include the operational resources required to comply with DORA, the criteria to analyse threats and receiving information from vendors.

Neil McDonald, managing partner at Compass Partners, says: "The data shows that a lot of firms are unprepared for DORA, and also face significant challenges in ensuring fit for purpose processes and framework as well as a functional target operating model.

"As always, data quality and system feeds ensuring accurate mapping will be a key challenge. Understanding fourth parties and associated risks, substitutability of critical vendors and testing of exit strategies will also add pressure points and complexity, stretching already limited resources."

UBS, SBI and DBS complete cross-border repo on public blockchain

UBS, SBI and DBS have launched the 'world's first' live repo transaction with a natively-issued digital bond on a public blockchain.

The transaction settled a repo, digital bond purchase and redemption using regulated digital payment tokens across entities in Japan, Singapore and Switzerland.

It was conducted as part of MAS' Project Guardian — a collaborative initiative with policymakers and the financial industry that aims to test the feasibility of applications in asset tokenisation and decentralised finance, while managing risks to financial stability and integrity.

According to the three firms, the transaction highlights how blockchain technology enables cross-border distribution and settlement of capital market instruments in a "highly efficient, flexible and cost-effective manner", while enhancing liquidity management.

A number of benefits have been showcased through this event, the firms say, including real-time 24/7 settlement, operational and capital efficiency, all the while ensuring compliance and security requirements.

The transaction involved a repo to borrow tokenised Japanese Yen (JPY) against a JPY-denominated natively-issued digital bond, with the borrowed tokenised JPY used to finance the purchase of the same bond.

The subsequent digital bond redemption and payment of principal and interest at maturity was executed on-chain, demonstrating the potential to cover an entire transaction lifecycle on a public blockchain.

Transcend secures Citi investment

Citi has become the newest investor for Transcend, a liquidity, funding and collateral optimisation solutions provider.

The investment — which was made through Citi's Strategic Investments arm — aims to accelerate the global deployment of enterprise-wide inventory optimisation solutions.

As the third global bank to invest in the firm, Citi's funding will continue to support Transcend's global roll-out of its solutions, including its optimisation technology.

The Transcend solution is designed to harmonise and integrate activity across bilateral, cleared and triparty collateral requirements, and allows allocation of the 'best' collateral.

The firm indicates that the use of collateral has moved beyond operations and "is now being seen as a strategic enterprise-wide business opportunity".

A long-term business agreement between the firms will enable Citi to enhance the efficiency of how it deploys cash and collateral across its global network, adds Transcend.

Alain Verdickt, head of collateral optimisation at Citi, comments: "The industry-wide solutions that Transcend is developing have the promise to shift the efficiency and profitability of the industry and we are glad to play our part in facilitating these advances."

Clearstream GSF volumes climb

Clearstream's global securities financing (GSF) business recorded a 41 per cent year-over-year jump in volumes outstanding to €732.4 billion for October, according to recent monthly figures.

Year-to-date GSF outstanding volumes have increased 10 per cent to €642.3 billion for 2023, relative to €581.9 billion for the equivalent period in 2022.

Assets under custody held in Clearstream have increased 7 per cent YoY to €17,656 billion for the month. Year-to-date, assets under custody have grown 5 per cent to €17,426 billion for 2023.

For Clearstream's investment funds services (IFS), securities deposits were up 3 per cent YoY for October to €3,245 billion. The volume of transactions through the funds division also increased 15 per cent YoY to 3.86 million.

International business securities deposits through the Clearstream ICSD have risen 5 per cent YoY for the month to €8,403 billion. The number of transactions through this service have climbed 13 per cent YoY to 6.5 million for October.

CME Group to launch €STR Options

Derivatives marketplace CME Group will launch options on €STR futures in Q1 2024.

The firm enables clients to trade futures, options, cash and over-the-counter (OTC) markets, optimise portfolios, as well as to analyse data.

In November, CME Group €STR futures reached an average daily volume (ADV) of 17,000 contracts — with a single-day record of 39,836 contracts traded on 10 November.

Commenting on the news, Mark Rogerson, EMEA head of interest rate products, CME Group, says: "With consistently strong volumes, open interest in our €STR futures has continued growing exponentially during 2023, now up to 29,000 contracts, with more than 80 per cent of market participants choosing CME Group as their home for European short term rate futures trading.

"Adding options to our growing €STR futures contracts will provide clients with the first holistic €STR derivatives solution that allows them to navigate continued economic uncertainty and more accurately manage their risk in European interest rate markets."

The Middle East: gaining a foothold in a developing market

Carmella Haswell explores the developments taking place within the securities finance market in the Middle East and how the region is attracting interest from foreign investors

The Middle East is attracting a growing interest from foreign investors as Gulf Cooperation Council (GCC) states work to improve infrastructure and to align themselves with international standards. As countries within the region look to go live with securities lending programmes, this could be the next opportunity for the market.

Dubai, Abu Dhabi and Tel Aviv are the top financial centres regionally, ranking 21, 35 and 57 respectively in the Global Financial Centres Index (GFCI). GFCI is published by Z/Yen Partners in collaboration with the China Development Institute and charts the progress of the world's leading financial centres.

The report revealed that all centres in the region had improved on their ratings, with Dubai and Abu Dhabi among the top 15 centres globally expected to become more significant over the next two to three years.

"The Middle East is a growing region of interest for our clients. Although the Middle East's beneficial owners have been actively lending their international assets for some time, the lending of local equities has only recently started to grow," says Dimitri Arlando, head of EquiLend data and analytics EMEA.

EquiLend data reveals that more international banks are participating in the lending and borrowing of local equities, with Saudi Arabia leading the way in this respect.

There also remains a desire for banks in the region to cooperate internally between different stakeholders and externally with new trading counterparties and associations. Absolute Collateral CEO Steven Griffiths says that initiatives that support this in an 'easy and simple' way will help the banks to grow in line with the market, rather than leaving them behind.

An infrastructure for growth

The Middle East has attracted new businesses to set up shop in the region, including Griffiths — who recently launched a collateral management trading platform, Absolute Collateral, in Bahrain, a GCC state situated in a bay on the southwestern coast of the Persian Gulf.

"The ease of working with the entire ecosystem from individual banks — Islamic, conventional and international — to larger organisations such as the Bahrain Association of Banks (BAB), Bahrain Economic Development Board (EDB) and the International Islamic Financial Market (IIFM), helped to shape our decision to launch in Bahrain," Griffiths explains.

This move would encourage greater cooperation across multiple layers, he adds, helping the new initiative to gain a strong foothold.

Speaking to SFT, advisor for Absolute Collateral Gabriele Frediani highlights that Bahrain as a state is 'more sensitive' to adapting to changing economic and geopolitical winds, such as the events of the Arab Spring in 2012. He indicates that the financial community, from the central bank to banks and asset managers, was therefore more receptive to products such as repo.

The Middle East is very much the next opportunity for securities finance, comments Adnan Hussain, head of agency lending and liquidity services at HSBC. He says that local pockets of financing — particularly against fixed income assets through the repo market — are "now coming together", as well as market participants who are facilitating lending through a central counterparty (CCP) and exchange-type model.

HSBC celebrated the execution of the bank's first international securities lending and borrowing (SLB) transaction on the Dubai Financial Market (DFM) in July. The milestone marks the latest step in the continued evolution and expansion of Dubai's capital markets, according to the stock exchange.

SLB is part of the infrastructure facilitating the regulated short selling of securities and it also allows asset owners and managers to enhance the yield of their long-term holdings by lending out their securities to borrowers for an annualised fee, while retaining their rights of holding the securities.

> *Although the Middle East's beneficial owners have been actively lending their international assets for some time, the lending of local equities has only recently started to grow.*
>
> **Dimitri Arlando**
> Head of EquiLend data and analytics EMEA

Speaking to SFT, Hussain says: "This SLB transaction on the DFM is significant and speaks volumes for the Gulf as a whole. It has followed on from Saudi Arabia — the largest market in the region — which was first to market with securities lending. Dubai has now followed quite closely in that respect. Having worked with regulators on the topic for some years now, other markets in the region are very close to going live with securities lending as well."

The enhanced market infrastructure and the GCC states are attracting a large amount of new foreign investors, he adds. Hussain explains that the different regional exchanges are increasing cooperation, while improving their infrastructure and standards in the process.

From an investment perspective, Hussain highlights, participation in the region has become broader, providing a natural progression into securities lending. “In return, this offers a route to market that is essential to create a developed market status, offering solutions from an alternative product perspective such as hedging and financing,” he adds.

“From international communities, in general, there is a wide array of social economic spheres that are now more interested in the Middle East than they have been previously,” he suggests. The GCC continues to develop its capital and labour markets. Tourism is a significant aspect of the United Arab Emirates (UAE) economy, which market participants anticipate will help to bring trade and investment flows to the region. Hussain says it allows domestic companies to grow and the economy to flourish, “offering an infrastructure for growth”.

As investments are growing, it is only natural to expect that the region is getting closer to rivalling the likes of what we have seen in Asia. There is a very positive future ahead.

Adnan Hussain
Head of agency lending and liquidity services at **HSBC**

An optimistic outlook

Markets across the Middle East region are working to diversify their economies. Saudi Arabia created its Vision 2030, Kuwait followed with its Vision 2035 and Abu Dhabi formed its Economic Vision 2030 — most of these timeframes are focused on market reforms and have resulted in much broader index inclusion for their equity markets.

“With index inclusion, this can naturally prompt passive funds to allocate a significantly larger proportion of their investments into that country and region,” Hussain says. It is a natural objective for the regulators to ensure that securities lending regulation is aligned with international standards — a consistent approach HSBC has seen in the GCC.

According to Hussain, a more transparent market will increase international attention, while a more efficient financing mechanism will enhance the flow of money through these economies. “Opening up these markets in a risk-controlled way will enable the local population, local companies and listed investors to benefit from these new regulations and features,” he notes.

HSBC reports a monthly, if not weekly, increase in volumes in the region, noting the emergence of new execution mechanisms, new demands on trades and new entrants to market. HSBC’s Hussain believes that 2024 will be “evolutionary” for the market.

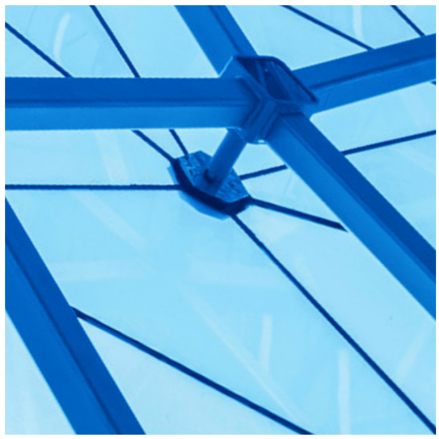
Anticipating the next steps for the Middle East and how the region could develop over the next five years, Griffiths says the “ideal outcome” would see the development of a MENA tradable, post issuance market that is deep and liquid, and one that is supported by visible trading and market data.

He says the ability for assets to move more easily between jurisdictions and custodians, as well as the rehypothecation of assets when trading with Islamic banks, would enable all types of sell- and buy-side clients to trade within the region.

Following Griffiths’ point, Frediani adds: “If the structures are still nascent, the quality, eagerness, knowledge and professionalism of market participants are incredibly high, so there is every reason to be optimistic and ambitious!”

In his concluding thoughts, Hussain says the market in the Middle East is “on a growth trajectory to rival the likes of APAC and Europe” — especially from a securities financing business perspective as part of a global bank’s coverage model. He continues: “As investments are growing, it is only natural to expect that the region is getting closer to rivalling the likes of what we have seen in Asia. There is a very positive future ahead.”



SEC publishes final 10c-1a reporting rules

On 13 October, the US securities markets regulator published its 10c-1a Final Rule designed to promote transparency in US securities lending markets by requiring parties to report the material terms of the trade by end of day on T+0. In the second part of this article, Bob Currie reviews these rules changes and what these imply for market participants

The Securities and Exchange Commission (SEC) has now adopted Rule 10c-1a, which requires lenders of securities to report the material terms of securities lending transactions to a registered national securities association (RNSA).

This Exchange Act Rule 10c-1 upholds a Congressional mandate in the Dodd-Frank Act to promote transparency around securities lending transactions. This requires that market participants, financial supervisors and the public have access to fair, accurate and timely information relating to loan transactions.

SFT provided a detailed two-part appraisal of the proposal objectives and content of Rule 10c-1 when this was first advanced by the SEC for public consultation in November 2021, with the market initially given just 30 days to provide its feedback.

Perhaps moved by the weight of industry feeling about the unanswered questions in the original proposal and this extremely tight consultation window, falling over the final weeks of the calendar year, the SEC opted to reopen public consultation at the start of March 2022, providing respondents with an additional one month to share their views. Almost 18 months after the close of this second round of consultation, the SEC has now released final rules for 10c-1a implementation. Securities Finance Times has published a detailed evaluation of the content of these final rules in the first part of this article, appearing in SFT Issue 339 on 31 October 2023.

Potentially the most noteworthy amendment in the 10c-1a final rules has been the removal of the 15-minute reporting window for new and modified trades that appeared in the original proposal. Instead, the final rule requires lenders to report loan data to an RNSA by the end of each trading day.

The Financial Industry Regulatory Authority (FINRA), which is currently the only RNSA that is approved to receive this trade reporting, will maintain this information confidentially and will release only a subset of this information for public viewing on the next business day.

This information released on T+1 will include details of the time of the loan transactions, the collateral used and pricing information such as the loan’s rate. FINRA will also release aggregated data for the previous day's loan activity, broken down by security. However, FINRA will not disclose details of the loan amount on T+1. Rather, this information will remain confidential for a further 20 days.

The final rule will become effective 60 days after details are published in the Federal Register. This will give FINRA four months to finalise its rule sets and 12 months for this RNSA rule set to be implemented.

Reporting parties covered under Rule 10c-1 will be expected to start reporting securities lending trades to FINRA 24 months after this effective date. FINRA will be given a further 90 days from this point to make 10c-1a information publicly available.

Implementation timetable

In resuming our evaluation of these rule changes from the first part of this article, SFT asked market experts whether the implementation timetable — as proposed in the SEC's statement of 13 October — is appropriate and workable.

"If anything, the implementation timetable is more generous than we had feared," suggests EquiLend's head of RegTech solutions Kevin McNulty. However, as with so many implementations, the clock will run down quickly, particularly as this coincides with new Basel rules and T+1 in North America. "It is crucial that firms consider their options for reporting sooner rather than later," he adds.

For Jonathan Lee, senior regulatory reporting specialist at Kaizen Reporting, the timetable is currently a little uncertain because the clock only really starts ticking when the adopting release has been published in the Federal Register, which is no less than 30 days following the publication of the rule. "I think 13 months will be a reasonable timeframe for implementation to cover 12 data elements and however many fields are required to meet these 12 data elements," says Lee. "The industry has, after all, been on notice since November 2021."

However, Lee believes that the challenges are really likely to arrive after the reporting regime is live and in production. Like the Securities Financing Transactions Regulation (SFTR) in the European Union and the UK, Lee believes that 10c-1a implementation will prove good motivation for firms to adopt best practices and standards and to streamline their post-trade processing.

For Igor Kaplun, global head of business development at S&P Global Market Intelligence Cappitech, the SEC's proposed timetable is broadly appropriate for implementation of the Final Rule 10c-1. On paper, the industry has 24 months until the reporting requirements become effective, which will be around the end of 2025 or the beginning of 2026. S&P Cappitech will be examining the technical requirements from FINRA closely to see how, for example, registration and onboarding will work, how the data is actually reported and what format it has to be in. "Those are the specifics that firms need to plan for their implementation," he says.

Depending how long FINRA takes to finalise their rules, Kaplun indicates that firms will have at least 12 months before they have to start reporting. However, he suggests that, for a new regulation, 12 months is not a lot of time to analyse, scope, build, test and implement a reporting solution. Past experience may help in this regard, with Cappitech currently supporting 14 different reporting regimes around the world, having delivered over 600 client implementations across banks, brokers, asset managers, hedge funds, corporates and commercial organisations.

Dialogue and preparation

As a registered broker-dealer and ATS, New York-based Provable Markets has engaged with the regulatory authorities in areas where it believes that its expertise can benefit market practice. Aurora — the company's cloud-based alternative trading system for securities lending, security-based swaps and option block trading — has been designed to incorporate equity market type automated workflows to securities lending markets. Chief Executive Matt Cohen believes that this maps well to what the market requires to support end-to-end efficiency across these trading segments and to support efficient 10c-1a transaction reporting.

"At Provable Markets, our approach has been to integrate best practice from a relatively mature market structure, notably trading in cash equities, and to bring similar efficiencies in the technology that we offer to support securities lending," explains Cohen. "In doing so, we can today offer the efficiencies of connectivity, messaging, and, if needed, reporting as a result of that system architecture."

Firms falling into scope of the Final Rule that choose to report via a broker-dealer or another third-party vendor will need to look carefully at their vendor relationships, oversight and supporting contractual documentation. Kishore Ramakrishnan, managing director and capital markets advisory leader at regulatory consultancy Treliant

LLC, explains that while the covered person may rely on reporting agents to submit the required information to an registered national securities association (RNSA), the covered person is still liable for the completeness and accuracy of the report.

Third-party service providers can also be employed by covered persons to assist with reporting to FINRA, as the sole authority currently registered as an RNSA. However, whereas use of a recognised “reporting agent” shifts liability for failure to report to the RNSA to the agent — provided that the agent is provided with the necessary information — use of another third-party vendor does not transfer this liability.

Ramakrishnan believes that funds engaged in covered securities loans will need to set written agreements in place with one or more reporting agents or they will need to assess whether there are reasons to rely on third-party vendors that are not reporting agents.

Managing 10c-1a transition

According to Jonathan Lee, Kaizen will await details from FINRA on their implementation rules, which are likely to appear in Q1 2024, before setting out its service offering. The FINRA rules will transform 12 data elements into around 20 to 30 reportable fields. “Kaizen will be on hand to assist with concerns around data quality on implementation, while sharing expertise built up in the market and from our extensive experience in SFTR, money markets statistical reporting (MMSR) and sterling money markets daily (SMMD) reporting,” he says. “Kaizen will be working with firms to ensure compliance with SEC 10c-1a, offering training, a control framework and quality assurance through regulatory testing when the Rule is live.”

Treliant’s Ramakrishnan suggests that, in managing their Rule 10c-1a preparations, broker-dealers that serve as lending agents must analyse their existing securities lending booking flows to ensure they supply all the data elements required for reporting and they must reconfigure their loan booking systems to capture any missing data elements.

“Firms will need to enhance their internal systems and trader workflows to capture all data required to report their loan transactions on a timely basis,” says Ramakrishnan. Additionally, reporting agents must enhance their reporting infrastructure to automatically capture the loan and aggregated inventory data published by the RNSA, as well as integrating this with their source systems, generating reporting files to FINRA, capturing a Unique Trade Identifier (UTI) for each loan provided by the RNSA in the feedback files and quoting these when reporting loan modifications.

EquiLend’s Kevin McNulty explains that the New-York based SFT execution, post-trade and data services specialist intends to offer a full 10c-1a reporting agent solution for clients and that, as a registered broker-dealer, it has the necessary authority to do so.

“It makes perfect sense for clients to use us as we already collect most of the data required in our existing trading and post-trade solutions set,” he says. “The solution we build takes the data available, supplements this with any additional requirements, formats the reporting to conform with FINRA specifications, and then submits these to the regulator.”

According to McNulty, the two-year implementation timetable means that clients can also utilise EquiLend’s 1Source initiative, the DLT-based single data source for trade details and downstream lifecycle event information. “As 1Source uses DLT and provides the market with a golden source record of all securities lending activity, it is the perfect

Managing the 10c-1a transition

In managing the regulatory, legal and operational considerations raised by SEC Final Rule 10c-1a, S&P Cappitech’s Kaplun offers three pieces of advice on how to negotiate these changes to the regulatory reporting regime in the US:

1. Start early. Put a plan together in 2023 on how you will tackle this new requirement. It will be complex to understand the range of entities that fall into scope of the 10c-1a reporting rules and the products to be reported.
2. Join a community network. All of your peers are looking at this requirement and will be asking similar questions on how best to implement it. Sharing of ideas, questions, risks in a trusted forum is critical.
3. Analyse what you already have. Are you currently sending similar data already under SFTR? Can the same feeds/technical infrastructure be utilised to comply with your reporting obligations?

base for regulatory reporting of timely and accurate data," he says.

Provable Markets' Cohen indicates that the company's Aurora platform is designed to be interoperable with other execution and post-trade platforms, enabling users to access trading liquidity from multiple sources and to minimise the vulnerability of the broader securities lending ecosystem to single points of failure. Through this full-stack lending infrastructure, the company aims to support all customer types, including the needs of smaller buy-side firms and broker-dealers for whom building their own 10c-1a reporting capability — rather than using a reporting agent — would require a significant internal build and overhead cost.

According to Igor Kaplun, S&P Cappitech will provide a 10c-1 service as a third party vendor, enabling firms to mutualise the cost across many of their peers and to work with a trusted provider that has specific expertise in the SFT regulatory reporting segment. "We plan to build on our expertise in data, technology and regulation in the SFT marketplace to help clients meet their SEC 10c-1 obligations," he says.

As a prominent player for SFT reporting under SFTR in the EU and UK, Cappitech aims to build on its community of customers across lenders, lending agents, and borrowers to offer a "fit for purpose" reporting solution for the US market. "Nine of the 12 data fields required under SEC 10c-1 are already captured under SFTR and there is already an existing technical, operational and relationship framework in place with many of the largest agent lenders and lenders in the SFT community," he says. Cappitech's objective is to help clients to meet their regulatory obligations in the most efficient, practical and cost effective manner.

Light touch?

While 10c-1 may seem to be light touch, Lee believes that the fragmented nature of SFT reporting in the US presents controls and compliance headaches of its own. The team at Kaizen also has experience of TRACE, the FINRA administered fixed income trade reporting regime, and has spoken out about the very different nature of securities lending when compared with the cash bond market. "FINRA has proven very proactive in ensuring compliance with TRACE and we do not expect any difference when it comes to administering 10c-1," concludes Lee.

Lee indicates that Kaizen has been able to share its experience with regimes such as MMSR and SMMD – which in some ways are more similar to 10c-1 than SFTR — and to join the voices of concern about unjustified position disclosure requirements and their unintended consequences. The securities lending market is, after all, a very international market whose location is by no means guaranteed in many cases.

Drawing a contrast with SFTR implementation in Europe, EquiLend's McNulty notes that European regulators and the SEC have taken different approaches and both have their pros and cons. Rule 10c-1 focuses on a smaller set of data fields and could arguably deliver transparency that is easier to understand regarding lending activity in US securities. However, this will not provide the SEC with data on loans of non-US securities by US lenders.

"One area to note is the overlap in scope between both regimes as 10c-1 considers first the securities that are lent and borrowed — essentially US securities and possibly cryptoassets — whereas reporting obligations under SFTR are determined firstly by the jurisdiction of the parties involved," adds McNulty. "This will mean that some transactions will need to be reported under both regimes."

The outcomes in the US will be different to Europe because the objectives and scope is different, proposes S&P Cappitech's Kaplun. The SEC is focused on providing transparency in the market to the general public and has required FINRA to publish the data in aggregate on T+1 and transaction by transaction on T+20. SFTR only requires the data to be published in aggregate on a weekly basis and there is no transaction-level detail available. In contrast, SFTR was designed to give regulators access to SFT data for monitoring of system risk and market abuse.

Importantly, some of the data fields may need to be represented as multiple data points. For example, rates, fees, charges and rebates for the loan, as specified in the SEC Final rules, may be represented as separate data points in the FINRA technical requirements.That said, Kaplun concludes that 10c-1a will be easier to report than under SFTR — and, for those firms that already report under SFTR, the implementation will be significantly easier. Additionally, 10c-1 has explicitly excluded the reporting of repo transactions, while SFTR required the reporting of both SBL and repo trade information.

In concluding, Kaplun provides three key pieces of advice on how firms can best prepare for the SEC 10c-1a transition: they should start their preparations early; they should join working groups and community networks; and they should carefully review what they currently have in place (see box, p 20). Firms may already be meeting similar data requirements in fulfilling other regulatory reporting obligations and this may provide an effective springboard for managing their 10c-1a implementation.

Securities Finance Technology Symposium

Market participants gathered in London to discuss the most prominent challenges and opportunities within the securities finance space, as reported by Carmella Haswell and Lucy Carter

Uptake in alternative repo solutions face a geographical divide

“There appears to be a divide between geographical location and the uptake on sponsored repo models”, according to Nancy Allen, assistant vice president, financing solutions business development, at State Street.

As a panellist at this year’s Securities Finance Technology Symposium in London, Allen indicated that sponsored models in the repo market are well developed in the US, but questioned whether Europe and the UK were seeing the same uptake.

Sponsored repo is a transaction in which a dealer sponsors non-dealer counterparties onto a central clearing entity such as the Fixed Income Clearing Corporation’s (FICC’s) cleared repo platform — a system that matches and nets repo trades in US government debt.

These models are a “large part of the market” and “continue to grow”, Allen added. The Depository Trust & Clearing Coporation’s (DTCC’s) FICC platform has seen increased market uptake from multiple participants, she said, including from those that it “wouldn’t normally expect to see in the space”, such as hedge funds.

This is a consequence of the new opportunities being presented to new clients, Allen explained, that are providing for their firms and cash management solutions.

Darren Crowther, general manager, Securities Finance and Collateral Management (SFCM) at Broadridge, confirmed that his company has completed, or is in the process of onboarding, approximately 13 clients for sponsored repo services in the past four years. Clients are participating in this service for collateral allocation or matching, and with the aim of connecting to the FICC platform.

He continued: "We are currently onboarding more clients to cleared and sponsored securities finance in the US and starting to work with clients to bring them onboard to similar international offerings. We are constantly reviewing how we can be more interoperable with front-end systems, such as State Street's sponsored repo platform Venturi, and CCPs such as FICC and Cboe."

During the panel, entitled 'Time for Change: The Future State of the Repo Markets - Where Do We Go From Here?', Allen asked: "How are solutions and service providers able to work together to provide improved interoperability within the market so that these alternative repo solutions can take a hold within the repo market as a whole?"

Continuing the discussion, Allen highlighted that clients view Peer-to-Peer (P2P) solutions as an alternative solution to the traditional repo solutions that they have in place with their counterparties. From a global perspective, she said that P2P solutions need to be able to work globally, and be compatible with the US dollar, sterling and euro."

As vendors continue to collaborate to provide joint solutions, Crowther stated that a number of clients believe the P2P model is part of the future set of non-traditional securities finance trade types and suggested that to get there "we need to build and make the market more interoperable".

Reviewing the repo market in its entirety, Richard Comotto, co-founder and chief product officer at London Reporting House, said the market has seen rapid growth since 2015, as measured by the International Capital Market Association's (ICMA's) repo survey.

"We are approaching rates of 20 per cent a year, which is what we saw prior to the global financial crisis," he added. However, "this year there are indications that there may be a deceleration, particularly regarding Q3 2023, but this won't be confirmed until the end of the year".

"The unwinding of targeted longer-term refinancing operations (TLTRO) has forced peripherals back into the market. There is also a reduction in the European Central Bank (ECB) remuneration rate for non-monetary official deposits. Market participants are having

to put their money somewhere and the repo market has been the market of first choice. To an extent, that inflow of new money has offset the effect of QT," Comotto confirmed.

He concludes: "So far it has been a great year for repo, with new customers and new cash. Although optimistic, is that running out of steam?"

Action needs to be taken on DORA, speakers say

Firms need to start their work on compliance with the Digital Operational Resilience Act (DORA) now, panellists at this year's Securities Finance Times Technology Symposium said, noting that the industry is currently lacking awareness about this regulation.

Diego Ballon Ossio, partner at Clifford Chance, began the 'Exploring DORA' panel with an overview of DORA. Scheduled to go live on 17 January 2025, full compliance with the regulation is expected by Q4 of that year. The level one text has already been published and reviewed, with the industry anticipating the second round of regulatory technical standards in the near future.

The regulation aims to tackle operational resiliency and enhance ICT management processes for financial institutions. Firms must assess their systems and network and identify which elements are important for their regulated and essential activities. If provisions from third-party vendors are deemed as such then they will be in scope of DORA, and institutions must ensure that these services are compliant.

DORA amalgamates a variety of current guidelines and 'soft' regulations currently in place in the EU, Ballon Ossio explained, creating a binding regulation that will apply without the need for specific implementation across all member states. As such, firms "are not starting from zero" — they should either already be engaging with, or aiming to engage with, the requirements. Similarly, Stuart Power, director of integration intelligence at Coliance, added that existing testing procedures, along with added third-party verification, will be able to be used to prove compliance with the regulation.

Although DORA applies to regulated financial firms, vendors will also be impacted. Ballon Ossio noted that, as a result, vendors may attempt to keep their products out of scope, but explained that financial institutions will ultimately be responsible for deciding the materiality of their contracts with these third-party providers. Power added that even vendors that are not directly in scope of DORA must meet requirements to serve financial institutions, and stressed that firms need to be working with vendors now to guarantee product compliance.

Power shared his “surprise” at the lack of conversation around DORA given its imminent implementation and the “hefty fines” in place for any shortfallings. He emphasised the need for industry collaboration, a sentiment echoed by Richard Colvill, managing partner at Consolo, who advised firms to join steering groups, embrace a collaborative approach and learn from previous regulatory implementations.

Power went on to highlight key areas that firms will need to consider as DORA comes into effect, the first of which is ICT risk management — the main focus of the regulation. Companies must ensure that their systems are resilient and learn from any previous incidents that they have experienced. Information and intelligence should be shared both within the institution and with others in the industry.

Vendor risks must be consistently monitored, with clear communication between third parties and financial institutions to ensure resilience for the latter. Operational resilience testing is also essential, conducted both internally and from third parties, strengthening resilience to both the market and targeted attacks. This will be a time-consuming process, Power warned, again emphasising the necessity of action from firms on this issue.

There are several ways that institutions can prepare for DORA implementation, Power said, including specialised training, a clear understanding of an organisation’s requirements, and the securement of data.

The panellists discussed the fact that while DORA is an issue for companies on a group level, the impact on individual businesses

within that group will vary. Business leads must individually confirm their compliance, assessing which of their vendors and technology services are essential and explaining how operations would suffer without them. This information will need to be taken to a board level, with Colvill urging that business leaders must have their voices heard within the wider group.

Steve Sullivan, independent consultant, predicted that DORA will become another process that firms must go through, akin to know-your-customer and anti-money laundering checklists, by the time that the regulation comes into effect. Implementation “will be an educational process for many”, he concluded.

‘Two speed’ SFTR validation rules causing ‘growing level of divergence’

The UK and EU have seen a ‘small but growing level of divergence’ in the face of upcoming Securities Financing Transactions Regulation (SFTR) updates, which will potentially lead to ‘two speed’ changes to validation rules, according to Jonathan Lee, money markets reporting director at Kaizen.

Panellists at this year’s Securities Finance Technology Symposium in London discussed navigating the regulatory landscape, including Money Market Statistical Reporting, 10c-1 and the new SFTR validation rules.

During the discussion, Lee indicated that a 15-month gap remains between the go-live dates for the validation rules in the EU and UK. These took effect in the EU in September 2023, with the UK set to adopt the rules in November 2024.

According to Lee, the validation rules have become an ‘onerous task’ in this respect.

Almost three years on from its implementation, market participants also anticipate a review of the SFTR regulation.

The review was initially scheduled for 2024. However, after scrutinising the European Securities and Markets Authority’s (ESMA’s) agenda for next year, Lee recalls no mention of the review, noting that this could now be a 2025 initiative. He indicated that the ‘wheels continue to move very slowly’ in this regard. Panellists also raised concern in the ‘Navigating the regulatory horizon’ session around reporting requirements for Money Market Statistical Reporting (MMSR) for banks that operate within the EU.

MMSR was set up by the European Central Bank (ECB) in 2016 and is a vital part of the ECB’s monetary and financial policy, providing the dataset used by the European bank to calculate the daily publication of the Euro short-term rate (€STR) benchmark interest rates.

In its latest development, the ECB announced earlier this year that there will be an additional 24 banks — third country banks that now have branches in the EU — which will be required to report from 1 July 2024. This will add to the 47 banks currently reporting through MMSR.

Further, these newly selected banks are required to provide a ‘pilot go-live’ of this reporting from January 2024.

The organisations that are expected to report next year have raised ‘a lot of concern’ about the requirements, Lee added.

Organisations falling under the scope of this regulation are required to report on 44 data points under their MMSR obligations. Lee estimated that at least 20 of these data points have a crossover with data required for SFTR reporting.

Firms will need to submit their data between 18:00 CET and 07:00 CET the following day — a day in advance of the SFTR reporting requirements.

For Iain Mackay, product owner for RegTech Solutions at EquiLend, the MMSR data fields overlapping SFTR reporting reflects the “fragmented approach to regulatory reporting” that the market is currently experiencing.

He continued: “From a client perspective, they are looking to submit quality data in the correct time frame and in the most cost-effective manner. It is a challenge for them to be able to do this.”

To ease some concern around the reporting requirements, particularly in regards to quality data, Mackay said there is a need for governance, or a framework, for data standards and data quality. This will help to combat queries clients face from regulators about the data that is being submitted.

Mackay informed the event attendees that the Bank of England (BoE) and the Financial Conduct Authority (FCA) have collaborated with the aim to transform data collection. Both entities found that there is currently a fragmented approach to this discipline and that operational processing has become a challenge for market participants.

The Bank and the UK Authority have recommended forming a committee and creating a taxonomy around data standards, Mackay added. The aim is to establish a framework which will help to provide consistency in terms of the data being submitted.

Japanification drives opportunities for securities lenders

Securities lending activity in Japan has surged during 2023, with revenues generated by Japanese equities increasing by 26 per cent year-on-year. Matthew Chessum, director of securities finance at S&P Global Market Intelligence, evaluates the factors shaping market sentiment

Japanification is a term that is used to refer to an economy that has slow economic growth and little inflation, despite low interest rates and ultra loose monetary policy. This scenario, as you may have guessed from the title, has been the case in Japan since the early 1990s. Japan remains one of the only countries in the world to maintain negative interest rates and have exceptionally low levels of inflation. Japan's monetary policy remains very loose, with the current policy rate set at negative 0.1 per cent. S&P Global Ratings anticipates that the policy rate will increase by 10 basis points this year and by another 10 basis points next year.

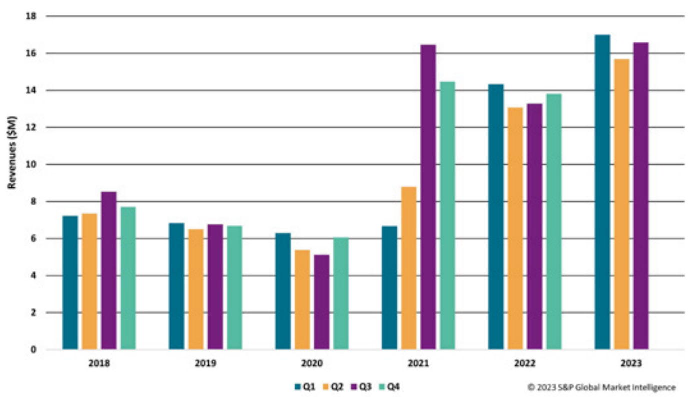
Active monetary policy, in the form of yield curve controls, continues to be a strong theme within the Japanese government bond market. Yield curve controls are used to ensure that government bond yields remain positive during a period of negative interest rates. In an attempt to stimulate the economy, the Bank of Japan has been an active participant in the fixed income markets buying or selling bonds to ensure that their yields remain within a specified range. In July 2018, the BOJ set the yield on the 10-year bond to a range of 0.1 per cent above or below zero. In March 2021, the bank widened the range to 0.25 per cent in either direction in an attempt to breathe life back into a market that the central bank's buying had paralysed.

More recently, as a result of the volatility seen across government bond yields caused by the message "higher for longer", as communicated by other central banks, the 10-year yield breached the 0.5 per cent threshold. This caused heavy bond buying by the central bank and increased the expectation that the BOJ will have to amend its policy or raise its threshold in the near future.

With the potential for higher interest rates, the advent of corporate governance reforms, an increase in domestic consumption and a rise in geopolitical tensions, the Nikkei 225, Japan's benchmark equity market index, has increased by 24.8 per cent year-to-date. This has led to an increase in interest in Japanese assets. This has also had a positive impact on securities lending activity within the market, with revenues across both equities and Japanese government bonds (JGBs) increasing significantly throughout 2023.

Securities lending activity in Japan has surged during 2023, with revenues generated by Japanese equities increasing by 26 per cent year-on-year (fig 1). To the end of October, year-to-date revenues of US$554 million surpassed those generated during the entirety of 2022, at US$520.8 million. Higher average fees have been one of the drivers of this impressive increase. Average fees hit 60bps during March, which is a multi-year monthly high. Year-to-date, average fees have been 18 per cent higher than during 2022. Heading into October, fees maintained their positive trajectory increasing once more to reach 54bps during October.

Fig 1: Securities lending revenues — Japanese equities



Across the fixed income markets, Japanese government bonds have been setting some records of their own. Average monthly revenues for the January to October period have been 23.5 per cent higher when compared year-on-year and, as in the equity market, year-to-date revenues of U$54.9 million have now exceeded those generated during the entirety of 2022 (at US$54.5 million). Across Japanese equities, average fees have also experienced a very healthy run over the year. The Q1 average fee was 29bps, a rise of 16 per cent YoY. For Q2 2023, the average fee was 24bps (up 1 per cent YoY) and in Q3 this was 26bps (a 4 per cent rise YoY).

Liquidity squeeze

As pressure on the Bank of Japan to maintain yields has increased and the bank has become a forced buyer of bonds to suppress yields, a liquidity squeeze has taken place. This has subsequently led to a lucrative opportunity for securities lenders to provide additional market liquidity. Utilisation currently stands at 7.7 per cent for JGBs, which is on average 132.8 per cent higher than during 2022.

Many investors in Japan point to the fact that during the current period of Japanification, similar stock rallies have appeared only to end in disappointment and decline. Previous rallies have reportedly been triggered by policy responses to preceding periods of crisis. The current situation may therefore be different to those experienced in the past. When looking at the economic data, it remains mixed. This is leading to lively discussion among economists regarding what to expect in the coming months.

Inflation in Japan remains modest when compared with both the US and Europe, standing at approximately 3.2 per cent for 2023. Next year's inflation is forecast to be 2.0 per cent, with the following two years boasting even lower inflation. Japan's unemployment rate is estimated to be 2.6 per cent and labour force participation is reportedly up. Other economic data, such as the most recent Purchasing Managers Index (PMI), indicate that an eight month increase in private sector growth may be coming to an end. Manufacturing output has reportedly fallen, along with the cost of raw materials. S&P Global Ratings has recently stated that Japanese corporate creditworthiness continues to increase, domestic consumption remains strong and corporate financial positions remain healthy.

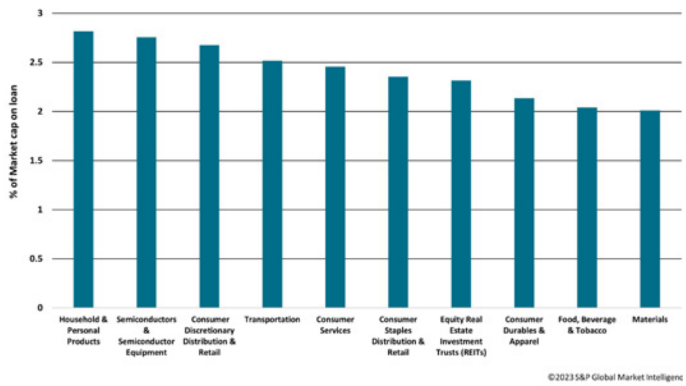
Investor sentiment

When attempting to translate these metrics into a prediction for future growth, investor sentiment remains key. The degree of short interest across the Japanese economy, calculated by using the average percentage of market capitalisation on loan, currently stands at 1.82 per cent. This is approximately 1 per cent higher than the APAC region (excluding Japan). The largest differences can be seen across the Consumer Discretionary Distribution & Retail sector and the Consumer Services sector, where short interest in Japan is more pronounced (fig

> *As pressure on the Bank of Japan to maintain yields has increased and the bank has become a forced buyer of bonds to suppress yields, a liquidity squeeze has taken place.This has led to a lucrative opportunity for securities lenders.*

2). These differences may suggest that sentiment is relatively negative in terms of the future performance of the Japanese economy as the service and consumer discretionary sectors often act as a bellwether for consumer confidence.

Fig 2: Top 10 most-shorted sectors across Japan (% market capitalisation on loan)



Given previous false starts and the current mixed bag of economic data, investors may start to ask questions regarding what will be needed to return the economy to a sustainable level of growth. That is likely to be the case if the combination of factors that are currently supporting the growth of the Japanese economy, and pushing its stock market to recent highs, cannot be sustained. When comparing Japan to Europe, or even the US — where the threat of recession remains a strong possibility and inflationary pressures remain high — investors may also wish to question whether low inflation, low unemployment and a sustained but low level of prolonged growth is really that bad after all.

Digital Prime Technologies appoints Tabacchi to board

New Jersey-based provider of digital asset technology solutions, Digital Prime Technologies, has appointed James Tabacchi to its board of directors.

As the current president and CEO of South Street Securities Holdings, Tabacchi brings extensive experience in strategic leadership to the position that, the firm believes, will be instrumental in driving further growth.

His guidance and insights will be vital to Digital Prime Technologies, the firm says, as it plans to enhance its offering and navigate the complexities of the financial technology landscape.

Tabacchi joins the firm's board with more than 20 years of experience at New York-based broker-dealer South Street Securities and its technology firm Matrix Applications — which he co-founded alongside a number of predecessor companies. He currently serves as CEO.

Prior to this, he spent more than two decades at Citibank (formerly Citicorp) where he worked in various customer interface and business head positions within the investment, corporate and consumer banking divisions.

BancTrust hires Shah to lead global securities financing

London-based emerging markets investment bank BancTrust has expanded its senior treasury and securities finance team with Dipan Shah and Natalie Daniels.

With more than 15 years of financial markets experience, Shah will serve as head of global securities financing, while Daniels becomes senior trader for global securities financing.

Daniels will report to Shah, who will report to Ian Gladen, head of treasury at BancTrust.

Prior to joining BancTrust, Shah was head of global securities financing at Sova Capital, where he built up the firm's securities financing capabilities across multiple markets and asset classes, developing a network of relationships.

Daniels also brings more than 15 years of experience to her role. She joined BancTrust from Sova Capital, where she took on the role of senior trader within the firm's global securities financing department.

In this role, she was responsible for trading a variety of securities financing products across a range of markets.

Prendergast promoted at State Street

State Street Global Advisors (SSGA) has appointed Ann Prendergast as head of EMEA. She replaces Rory Tobin, who retired in June, and reports to Yie-Hsin Hung, president and CEO.

In the Dublin-based role, Prendergast will be responsible for the development and execution of the company's strategic direction and growth in Europe, providing regulatory oversight for the firm's activities in the EMEA region.

Prendergast has almost three decades of industry experience, and has been a part of State Street since 2000. She joined the firm as a relationship manager, going on to hold a number of senior roles including managing director and head of relationship management, director of SSGA Ireland, and most recently CEO of SSGA Europe.

Prendergast has also served as a council member for the Irish Association of Pension Funds since 2021.

Commenting on her appointment, Prendergast says: "There is a significant opportunity ahead of us to strengthen our existing franchises and client relationships, while also focusing on new strategic areas. I look forward to working with the team to pursue our growth ambitions."

Proch appointed at LSEG

The London Stock Exchange Group (LSEG) has appointed Michel-Alain Proch as chief financial officer and a member of the board, effective 1 March 2024.

He will be based in London and replaces Anna Manz, who is stepping down from the board and will leave the group on 29 February 2024.

Proch currently serves as the group chief financial officer for Publicis Groupe. He is a member of the group's management board and is responsible for the global finance team, which extends across 100 countries.

Proch has previously held the position of chief financial officer at Hermès, Ingenico and Atos and is vice-chairman of the board at Maisons du Monde.

Commenting on the appointment, David Schwimmer, CEO of LSEG, says: "[Proch's] deep experience across global, financial infrastructure and IT data solutions firms will be invaluable as we deliver against the next stage of our strategic growth."

Vijayaratna named UKI CEO

Deutsche Bank has appointed Vathany Vijayaratna as CEO of its UK and Ireland (UKI) business.

In the role, Vijayaratna will oversee all divisions of the bank and develop its franchise in the region. She will report to Fabrizio Campelli, the management board member responsible for the firm's corporate and investment bank and UKI operations.

Vijayaratna has more than two decades of industry experience, all of which has been spent with Deutsche bank. She was appointed global head of fixed income and currencies structuring, in 2018, before becoming head of non-financial risk for the investment bank in 2022.

Commenting on her appointment, Vijayaratna says: "Deutsche Bank's connection to the UK and Ireland is longstanding and deep, built over 150 years of serving our clients in the region. I look forward to working with our team to deliver on the opportunities for growth in the region and support our clients' needs."

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