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Evolution not revolution

State Street's Sam Edwards and Greg Donovan look at collateral management and the importance of DLT

ISDA Digital Regulatory Reporting takes effect

The Monetary Authority of Singapore (MAS) and the Australian Securities and Investments Commission (ASIC) have implemented new over-the-counter (OTC) derivatives reporting requirements.

The International Swaps and Derivatives Association (ISDA) extended its Digital Regulatory Reporting (DRR) initiative to several additional jurisdictions in April.

The updated regulations, aiming to enhance transparency and oversight in OTC derivatives markets, came into effect in Australia and Singapore on 21 October.

The UK implemented the DRR under the UK European Market Infrastructure Regulation (EMIR) on 30 September.

Broadridge Financial Solutions has confirmed that its platform is ready to support the new requirements.

The firm is also expanding its offerings to include other updated regulatory regimes, such as the Canadian rewrite scheduled for July 2025 and the Hong Kong rewrite for September 2025.

“We anticipate that the regulatory wave will continue, and we are proactively working on behalf of our clients to help them meet their compliance requirements,” says Ben Cooling, general manager of regulatory trade and transaction reporting at Broadridge.

“The upcoming Canadian and Hong Kong rewrites are part of a global initiative aimed at enhancing the consistency and transparency of derivatives reporting, reflecting similar updates by regulators in the US, Japan, and Europe.”

Following the addition of the European Money Market Statistical Reporting (MMSR), which went live with an upgrade to v3.6 of rules in July 2024, Broadridge is developing the US equivalent of Securities Financing Transactions Regulation (SFTR) – the US Securities and Exchange Commission's (SEC) 10c-1 – scheduled for January 2026.

Broadridge will also be upgrading its solution to cater for major EU and UK MiFID updates, scheduled to come in over 2025 to 2027, and the final updates to Commodity Futures Trading Commission (CFTC) Dodd-Frank Reporting. ISDA will further extend the DRR to cover rule changes in Canada and Hong Kong, both due in 2025.

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Sharegain collaborates with DriveWealth

Sharegain has partnered with financial technology platform DriveWealth to open up new opportunities in securities lending for online brokers globally.

DriveWealth, which offers brokerage-as-a-service, is extending its securities lending offering with an agency lending capability, powered by Sharegain and tailored to the UK and European regulatory requirements.

According to DriveWealth, its platform and APIs manage everything from execution and clearing to custody, instrument screening, pricing, and more.

Now, online brokers can integrate the full suite of capabilities of both Sharegain and DriveWealth's platforms.

Commenting on the collaboration, Boaz Yaari, CEO and founder of Sharegain, says: "We are excited to join forces with DriveWealth, a company that shares our vision of levelling the playing field in capital markets and making securities lending accessible to everyone."

Clearstream GSF volumes up

Clearstream has revealed that its global securities financing (GSF) business generated a 2 per cent year-over-year (YoY) growth in volume outstanding to €710.51 billion for September.

Year-to-date (YTD) GSF volumes outstanding were up 13 per cent to €715.96 billion for 2024, compared to €632.33 billion for the same period last year.

Assets under custody held in Clearstream have risen 7 per cent YoY to €19,033 billion for the month, with another 7 per cent YTD increase to €18,625 billion for 2024.

For Clearstream's investment funds services (IFS), securities deposits increased 15 per cent YoY for September to €3,799 billion.

The number of transactions through the funds division was up 30 per cent YoY to 4.41 million.

International business securities deposits (ICSD) through Clearstream were up 6 per cent YoY for September to €8,388 billion. The number of transactions through this

service has climbed 33 per cent YoY to 8.11 million for the month.

Mangrove Partners loses Overstock case

The Mangrove Partners Master Fund has lost an appeal in its securities class action against Overstock.com and its key executives, including former CEO Patrick Byrne.

The 10th US Circuit Court of Appeals rejected the case where the short seller accused the online retailer of misleading investors about its sales prospects through a blockchain-based digital dividend aimed at squeezing short sellers in early 2019.

The court dismissed these claims on the basis of insufficient allegations of securities fraud and market manipulation under the relevant securities laws.

A short squeeze occurs when short sellers are forced to buy shares at rising prices, artificially inflating the stock value. However, the court stated that Overstock had fully disclosed the details of the dividend in advance, so there was no deception or fraudulent manipulation.

Circuit Judge Lucero Carson said: “We conclude that the market received notice that short sellers might buy Overstock stock to cover their positions before the dividend's record date, evidenced by market analysts’ descriptions of the dividend's potential impact.

“Because buyers and sellers possessed sufficient information to form judgments about how Overstock's dividend would impact Overstock's share price, plaintiff fails to allege that Overstock deceived investors as to how other market participants have valued a security.”

The court emphasised that for a securities fraud claim, the plaintiff must prove that it relied on the defendant’s misrepresentations in deciding to buy or sell the stock, but in its pleadings, Mangrove Partners admitted that it bought Overstock shares to avoid breaching lending contracts.

“Plaintiff cannot have it both ways,” Carson adds. “If [Magrove Partners] bought [Overstock] shares to avoid breaching its lending contracts, it cannot also have bought its shares because of the defendant's alleged misstatements.”

Based on the above reasoning, the court of appeals upheld the Utah district court’s ruling in favour of the defendant.

The decision also dismissed control-person liability and insider trading accusations against Byrne.

GLMX reports 99% jump in ADV

GLMX has reported “significant developments” in the company’s overall growth in the third quarter of 2024.

The average daily volume (ADV) of securities finance transactions traded on the platform jumped up 99 per cent year-on-year (YoY) to US$1.01 trillion for Q3 2024.

For the average daily balance (ADB) of new and existing trades on the platform, GLMX reports a 74 per cent YoY rise, generating US$2.75 trillion in the same quarter.

Balances on the GLMX platform reached


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US$3 trillion in Q3, which is a “significant milestone” for the firm.

Glenn Havlicek, CEO of GLMX, says: “Very excitingly, we have begun to see our growth expand beyond our traditional repo business and into adjacent securities finance and money market segments.”

Thailand to increase brokerage violation fines

The Stock Exchange of Thailand (SET) has introduced a more stringent fine structure for member brokerages, effective on 1 November.

The fine penalty against naked short selling offences will triple to three times the illicit profits, with a new minimum penalty of one million Thai baht (US$30,000).

Previously, the penalty for selling a security without a confirmed ownership matched the profit without a baseline fine.

In addition, brokers failing to make timely margin calls will face fines of THB30,000 — up from the previous threshold of THB10,000.

The Securities and Exchange Commission of Thailand (SEC) has approved the new framework following consultations with market participants.

This move comes as part of SET’s broader initiative to strengthen its regulatory mechanism and ensure strict adherence to trading rules.

The SEC is currently consulting on draft amendments to securities trading services regulations, including short and long selling transactions, until 31 October.

Hazeltree selects Necto API for zConnect platform

Hazeltree, a New York-based and cloud-based treasury and liquidity management platform, has partnered with Necto API to enhance its global bank connectivity network, helping clients to access a broader range of financial data sources.

Clients of Hazeltree's zConnect platform will benefit from Necto's multi-bank API aggregation, which provides a single endpoint for real-time bank connectivity, bank account balances, and intraday

payments, streamlining integration processes across jurisdictions.

This integration aims to offer support for hedge funds, private equity firms, and fund administrators by delivering real-time visibility into liquidity, enhancing operational efficiency, and reducing the risk of manual errors.

Paul Gallant, chief product officer at Hazeltree, says: “Necto's API aggregation aligns perfectly with our vision of an integrated platform that automates banking connectivity, improves decision-making, and strengthens financial control.

“This partnership enables us to extend our bank connectivity offerings and enhance the overall value we provide to our clients."

Hazeltree's zConnect platform initially focused on connecting counterparties, such as prime brokers, custodians, and International Swaps and Derivatives Association (ISDA) counterparties for collateral management.

However, the platform has now expanded to support fund administrators and larger private equity firms with their global banking needs.

The platform provides hedge funds with liquidity management, securities financing, and streamlined interactions with prime brokers, the firm says.

Similarly, private equity clients can gain access to global banks, manage subscription lines and credit more effectively, and maintain cash liquidity for GP/LP structures, it adds.

Fintech firm Necto says its network of banking APIs complements Hazeltree's existing connectivity, expanding access to global banks.

This enhanced connectivity aims to support faster reconciliation, real-time data visibility, and improved security through standardised protocols.

Fidelity and Stone Coast work on bundled hedge fund solution

Fidelity Prime Services and Stone Coast Fund Services have announced a strategic relationship to create a new bundle of solutions for hedge funds.

This includes prime brokerage and fund administration, as well as access to Fidelity's PB Optimize (PBO) fintech platform and Stone Coast's 'golden source' fund data.

James Coughlin, senior vice president of Fidelity Prime Services, says: "This strategic relationship embodies our joint vision of providing an end-to-end integrated technology offering for fund managers, with cost efficiency and exceptional service at the forefront."

Through the combination of prime brokerage and hedge fund administration services, the firms aim to allow funds to focus less on administrative overhead and more on growth and investment strategies.

Marc Keffer, founder and principal at Stone Coast Fund Services, adds: "By combining our golden source fund data with Fidelity's innovative PB Optimize platform, we are poised to offer clients an integrated solution that enhances portfolio decision-making."

EU announces T+1 next steps

The European Securities and Markets Authority (ESMA), the European Commission, and the European Central Bank (ECB) have announced the next steps to support the EU's preparations towards a transition to T+1.

The three regulatory bodies have agreed to establish a governance structure, incorporating the EU financial industry, to oversee and support the technical preparations for the future move to a shorter settlement cycle.

In a joint statement, the authorities say that shortening the settlement cycle in the EU will change how markets function, but it also brings “important benefits” for the EU Savings and Investment Union (SIU).

The trend of shortening settlement cycles received a “significant boost” in May, the institutions say, when the US, Canada, Mexico, Jamaica, and Argentina completed their transition to T+1.

Following that, the UK committed to the implementation of T+1 by 2027.

“It is urgent to act if the EU wants to avoid prolonging and amplifying the negative impacts of the misalignment with major jurisdictions internationally,” the statement continues. “Given the high level of interconnectedness between the EU capital markets and those in other jurisdictions in Europe, a coordinated approach across Europe is desirable, with efforts to reach a consensus on the timing of any move to T+1.”

Although settling securities transactions on T+1 in EU Central Securities Depositories (CSDs) is already technically and legally possible, according to the authorities, amending the CSDR to mandate a harmonised shortening of the settlement cycle in the EU would ensure a coordinated and smooth transition to T+1 and provide legal certainty.

ESMA will deliver its final report on shortening the cycle to the European Council and the European Parliament in the coming weeks.

CSD Prague to operate first DLT settlement system

The Central Securities Depository (CSD) in Prague will be the first institution to operate a distributed ledger technology (DLT) settlement system under the European DLT Pilot Regime.

As part of the temporary regulatory framework, the Czech National Bank granted the approval, following notification from the European Securities and Markets Authority (ESMA).

The CSD can offer issuers of book-entry securities registration of issues in the newly created DLT-based registry from 18 November.

This technology has the potential to revolutionise the financial sector, particularly in the way securities are recorded and trades are settled, according to the CSD.

Ondřej Dusílek, CEO of the CSD, says: “The new European regulation has allowed us to implement DLT on a meaningful project. I believe that this will contribute to the development of the capital market in our country, as this platform will bring alternatives for financing small and medium-sized companies through the subscription of bonds or shares without the need for additional intermediaries.

“This platform will have a great added value for companies offering employee stock ownership plans (ESOPs) and also opens up huge opportunities for fintech companies, such as crowdfunding platforms, that can connect directly to DLT from the position of a node and offer their clients additional service in the securities field.”

The new technology allows the maintenance of a securities account, as well as the crediting of shares or bonds to this account as part of a primary subscription, an issue increase, or a transfer from another account based on an agreement with the counterparty.

These operations can be carried out with or without cash settlement, and anyone can open an account with the CSD with a Bank ID through the web or mobile application.

The platform will also be open for other financial market companies to become one of the DLT nodes of record, enabling them to open DLT accounts for clients and enter transfers in their systems within their client applications.

DLT registration is fully compliant with Czech law and meets all the requirements of book-entry securities, in particular the requirements of the civil code or the Commercial Corporations Act.

Only one type of account can be opened in the DLT records — the owner’s account, which means that the account holder is also considered the owner of the securities held in the account, and can thus exercise shareholder or other rights associated with the security.

The web or mobile applications then inform the account holder of the status and changes to the asset account, current debits, or transactions, including money transfers, and send notifications of any changes to the mobile phone.

The DLT Pilot Regime started applying in the EU in March 2023, providing the legal framework for trading and settlement of transactions in crypto-assets that qualify as financial instruments under MiFID II, while facilitating the set-up of new types of market infrastructures.

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Evolution not revolution: The developing collateral and liquidity landscape

With the shifting landscape of global regulation and the US move to T+1, State Street's Sam Edwards, head of Collateral EMEA/APAC and Global Triparty Services, and Greg Donovan, vice president of Collateral Client Solutions, look at collateral management and the importance of DLT

The need for market participants to enable all inventory for use as collateral, alongside the ability to mobilise and deploy that collateral at ever increasing speeds has never been greater.

The acceleration of T+1 settlement cycle practices across global markets places increased pressures on inventory availability, most prevalently in the US market, but also with other markets, including those most commonly used in securities financing transactions, set to follow suit in close order. The approaching milestone of mandatory US Treasury clearing looks likely to bring as many as 7,000 new intermediary-indirect participant relationships into scope. Global Uncleared Margin Rule (UMR) regimes continue to place demands for initial margin on market participants brought into scope during Phases 1-6, with additional entities falling into scope each year during the monitoring cycles for each respective regulatory jurisdiction.

A series of market volatility shocks since early 2020 have demonstrated the rapid constriction of cash and high quality liquid assets (HQLA) availability that can impact market participants in short timeframes, as well as the procyclical impacts these constrictions can have on the underlying assets, as demonstrated most clearly during the liability-driven investment (LDI) UK gilt crisis in October 2022. The importance of effective and efficient collateral and exposure management has never been clearer.

Collateral management functions, such as meeting exposure obligations, and liquidity management, ensuring 'right asset, right place, right time' to enable best financing outcomes, have always been closely aligned concepts and operations. Against this increasingly complex and dynamic market backdrop, however, there is a need to acknowledge the inherent interplay between them with the need to have robust, tested, scalable solutions that facilitate optimal outcomes across both the fulfilment of collateral obligations and the management of liquidity and funding. It is why the market trend towards outsourcing continues, as service providers offer the scale, expertise and technology to deliver for firms of all types and sizes.

There is increasing directional momentum across the buy side, sell side, as well as service and technology providers, which suggests that distributed ledger technology (DLT) is the logical next step for solutioning around these two inextricably linked processes. The possibilities that it offers with regards to settlement certainty and velocity are highly attractive in our modern environment where certainty is key and time lapses are costly. DLT presents a future with 24/7/365 inventory deployment across geographies, unconstrained by the inconsistencies of traditional market settlement apparatuses. Collateral managers, treasury managers and financing providers — freed from the restrictions of mobilising assets and cash across existing silos — will be able to instantaneously monitor and meet collateral and funding obligations, eradicating burdensome operational overheads and exponentially reducing counterparty risk in the process.

How realistic, however, are these expectations? How robust, tested and scalable are the DLT solutions that seem to offer so much? Do they represent a panacea for all matters relating to collateral and liquidity management? Will they arrive in time and at scale to sufficiently help market participants meet the increase in demands that are being placed on them?

As with all technologies, it is not the fundamental construct of the technology itself which is determining the answers to these questions but, rather, the way in which its providers and users are adopting and deploying it. The motor car would have remained a curious oddity had improvements in manufacturing processes and road infrastructure not been developed alongside it. There is a need to acknowledge that DLT solutions are not set to fulfil their evident promise overnight and will not stand entirely separate from the existing infrastructure of global capital markets.

"The provision of a scalable and robust DLT solution that is integrated with 'best-in-class' established technologies will fundamentally transform the mobilisation of collateral."

Sam Edwards
Head of Collateral EMEA/APAC
and Global Triparty Services
State Street

With the total value of global collateral in circulation approaching US$30 trillion, there is a need to capitalise on the scale of existing technologies to expand available pools of collateral and to mobilise and deploy that collateral at increased speed. At State Street we believe that the provision of a scalable and robust DLT solution that is integrated with 'best-in-class' established technologies can fundamentally transform the mobilisation of collateral on behalf of our clients and the onward movement of that collateral to their counterparties. This can, in turn, improve the liquidity risk profile and processes of our clients. We are excited at the opportunities that the synergies provided by our DLT and established technologies are set to unlock for our clients in both of these areas.

The case for digital solutions: Think big

Collateral DLT solutions are currently being used on a small scale. One or two tokenised money market funds (MMF) delivered to a single counterparty here; a currency or two delivered cross-border between branches of the same bank using a stable coin there. These individual undertakings are no mean feat, in and of themselves, and deserve recognition for the innovative use of technology that they represent. But how do we, as collateral and liquidity service providers, scale these DLT concepts up in order to genuinely meet the requirements of a global marketplace with US$30 trillion of collateral being managed on a daily basis? How do we ensure that DLT can be an important and relevant piece of the collateral and liquidity solution of the future?

The answer is to deploy DLT to transform collateral settlement into a digitised instantaneous event between market participants. In essence, the future of collateral mobilisation and delivery is akin to the digitisation of settlement within a triparty environment but with less operationally intensive processes for the funding of that environment. The core benefit of triparty is that it enables asset concentration and optimisation of inventory allocation across exposures. For decades we have seen the benefits it has brought through the elimination of individual bilateral settlement and the codification of ‘best’ to deliver.

A key challenge for users of triparty, however, is the mobilisation of sufficient (and sufficiently well diversified) assets into the environment to meet the aggregated liabilities across their collateralised agreements. The need to move assets from a primary custodial environment (or, sometimes, from several) to that of a triparty provider is a major source of cost and operational friction for clients. This is

“DLT solutions will not stand entirely separate from the existing infrastructure of global capital markets.”

Greg Donovan
Vice president of Collateral Client Solutions
State Street

particularly true for buy side participants who tend to have more constrained and siloed pools of inventory available for delivery into triparty when compared with their sell side counterparties.

State Street envisions a DLT enabled collateral environment that would facilitate seamless settlement across all asset classes. This deploy's 'best-in-class' capabilities for optimising inventory selection and deployment across all exposures, as well as leveraging smart contract capabilities in the coding of optimisation rules, in order to further reduce friction in the collateral process. The ability to digitally enhance the onboarding, contract creation, agreement amendments and user interaction model will accelerate the adoption of the new capabilities. The overarching principle is for clients to be able to conduct their trading and collateral activities within one custody environment.

'Best-in-class' inventory optimisation solutions are used to manage the selection of inventory from the client's custody accounts into a digital wallet based on aggregated requirements across all their exposures. Assets can be reflected as tokens through the minting mechanism of the DLT, ready for instant delivery to counterparties. Optimisation capabilities can determine efficient allocation of collateral across all counterparty exposures, based on the matching required values (RQVs) received, and established agreement parameters relating to eligibility, haircuts and concentration limits. Instantaneous, frictionless settlement of the tokens occurs between the client's digital wallet and that of each counterparty. Any returns, recalls or substitution of assets out of the environment can automatically result in the burning of the corresponding tokens and release of the collateral from the digital wallet, with replacements, where necessary, automatically selected by the inventory optimisation engine based on predefined parameters.

This model does not need to be limited to MMFs, a common first use case for the market, or digitally native assets. It will, however, enable efficient use of assets, such as MMFs, that are not currently fully deployed as collateral, expanding the pool of available collateral. More broadly, it should empower clients to deploy any eligible asset that they hold against any of their exposures and for collateral eligibility to continue to expand as liquidity and reuse of new assets grows. That is not to say that there will not be work to do in order to provide market participants and their counterparties, their respective lawyers, risk managers and credit risk functions with the comfort that they need in order to deploy digital collateral at scale. This is, however, a vital conversation as this solution will help meet those twin needs of collateral and liquidity management in the modern age. Readily mobilising assets without the associated operational burdens; creating liquidity and enabling asset reuse; and delivering the instantaneous and frictionless settlement of assets across DLT to enable cross liability collateralisation is a technology challenge that State Street is embracing.

EquiLend: Tackling system inefficiencies at the source

With the recent evolution of the securities finance market, Dan Dougherty, global head of sales and client relationship management at EquiLend, reflects on the firm's achievements and future direction

Technology has consistently accelerated transformation in the securities finance sector, with vendor solutions playing a crucial role. EquiLend began by addressing inefficiencies in trading and post-trade activities, but our focus has since expanded. Today, we offer a full suite of solutions tailored to industry demands, increasing regulatory pressures and data products that bring transparency to the market.

The expectation is that systems operate autonomously — delivering real-time trade execution, lifecycle management, and regulatory compliance as standard features, all underpinned by future-proof technology. Our goal is to eliminate friction in securities finance. This mission drives our commitment to improve through automation and reliable, scalable technology continuously.

Bridging legacy and modern technology

To enhance execution and lifecycle management, we have focused on continuous upgrades to our core platform — Next Generation Trading (NGT) and post-trade solutions. Integrating real-time market, post-trade and DataLend insights into NGT has given market participants centralised access to all crucial information on one platform. New functionalities like Competitive Bid negotiation and the integration of NGT with the EquiLend Clearing Services (ECS) Loan Market have driven significant growth in trading volumes across all asset classes and fee bands.

However, liquidity and participant breadth define a platform's success. NGT stands out, facilitating over US$122 billion in daily trading with more than 130 global counterparties across 30 markets. For firms seeking risk mitigation and capital relief, our ECS Loan Market enables central clearing of US securities at the Options Clearing Corporation (OCC), with record volumes in 2024. As the market transitions from manual to automated platforms like NGT and ECS, we have adapted our systems to accommodate diverse trade types and fee structures, from automated general collateral (GC) to high-value negotiated specials across equities and fixed income.

Beyond execution, our focus on post-trade efficiency has been catalysed by the shift to T+1 settlement. Our redesigned recalls notification and workflow tool, created in anticipation of T+1 in the US and Canada, directly addressed clients' concerns. The automated recalls feature integrates with the broader EquiLend ecosystem, leveraging real-time messaging to streamline post-trade processes. Within a week of the US T+1 transition, we saw a 176 per cent increase in automated recalls on our platform, signalling an industry-wide shift.

We are heavily involved with the UK's Accelerated Settlement Taskforce as a key industry contributor, ensuring we stay in touch with and can get ahead of market developments to best support clients across our solutions. Automation, a key recommendation from the taskforce, is already embedded in our systems, providing end-to-end lifecycle management from recalls to billing.

Interconnectivity and technological transformation

EquiLend Spire, our state-of-the-art, software-as-a-service (SaaS) platform designed to unify fragmented systems, increases efficiency for firms still reliant on manual processes. Spire offers flexible solutions for managing recordkeeping, inventory, locates, client asset lending, and other functions, enabling firms to reduce operational risk, increase efficiency, and improve transparency in the business.

Transparency is a critical pillar of our platform offerings. Our data solutions, including DataLend and Orbisa, provide real-time insights into global securities finance activity. DataLend aggregates data from diverse sources including client submissions, platform activity, and third-party inputs, delivering real-time market intelligence. This capability offers clients a competitive edge by enabling them to view market trends as they happen, rather than waiting for T+1 data from other sources.

Staying ahead of regulatory change

Proactively anticipating regulatory shifts, rather than merely reacting, is another area where we differentiate ourselves. We are actively supporting clients through changing regulatory landscapes, drawing on our extensive experience with compliance solutions for agency lending disclosure (ALD), the Securities Financing Transactions Regulation (SFTR), and the Central

Securities Depositories Regulation (CSDR), as well as the pending US Securities and Exchange Commission's (SEC) 10c-1a requirements.

In some cases, existing technology provides the answers to emerging challenges. For example, our partnerships with SSImple and valid8Me address inefficiencies in standard settlement instructions (SSIs) management and fund onboarding. Our Enhanced SSI Repository, developed with SSImple, offers centralised matching and monitoring for SSIs, while EquiLend Onboard+, in partnership with Valid8Me, streamlines fund onboarding, delivering a reduction in onboarding timelines by up to 90 per cent.

Anticipating the future

We see technology as a catalyst for transformation. Our development of 1Source.io, a distributed ledger technology (DLT) based 'single source of truth' for securities finance transactions powered by smart contracts, marks a bold step toward eliminating reconciliation and streamlining lifecycle management. Built on the Canton Network, 1Source.io ensures interoperability while maintaining privacy and data access through secure shared ledgers.

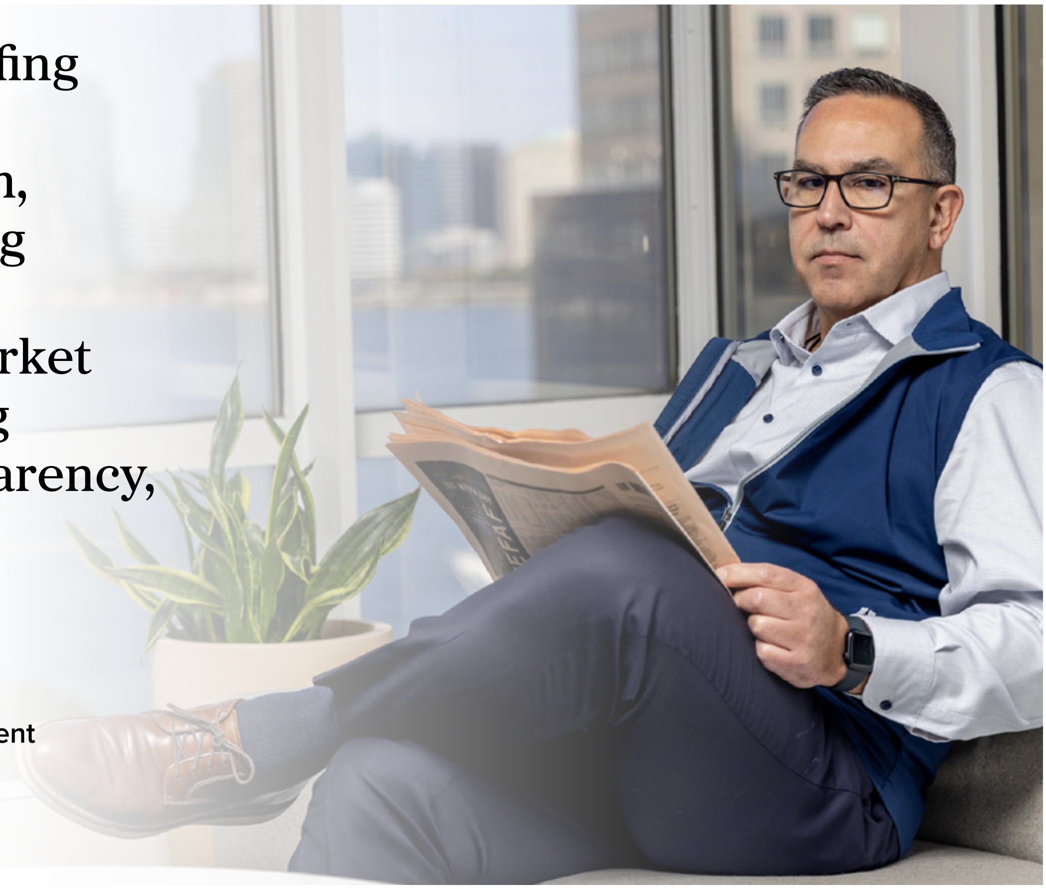
By future-proofing for innovations like tokenisation, we are preparing for the evolving needs of the market while enhancing security, transparency, and resiliency. This approach addresses today's challenges and positions us to lead the next wave of transformation in securities finance.

Persistent innovation

Legacy platform maintenance, crisis-driven workarounds, and poor data transparency create significant friction for clients, and as industries digitise, inefficiency becomes increasingly costly. EquiLend was founded 23 years ago to modernise trading and post-trade practices in securities finance, and we have since saved our clients significant sums through procedural efficiency. But our work is far from over.

We aim to relieve systemic pressure across the securities finance ecosystem through a constantly evolving suite of solutions and partnerships. By outsourcing development to specialised vendors, firms can stay focused on innovation without being bogged down by daily operations. At EquiLend, driving change is our core business, and we remain committed to leading the industry forward with every new solution we deliver.

"By future-proofing for innovations like tokenisation, we are preparing for the evolving needs of the market while enhancing security, transparency, and resiliency."



Dan Dougherty
Global head of sales and client relationship management
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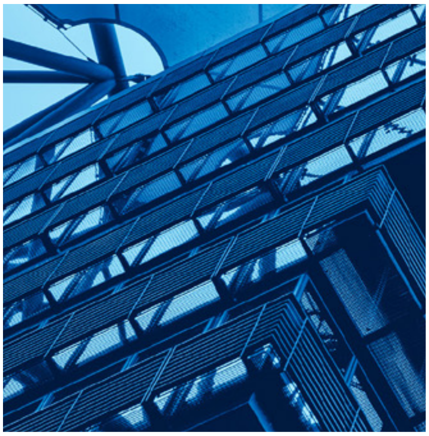

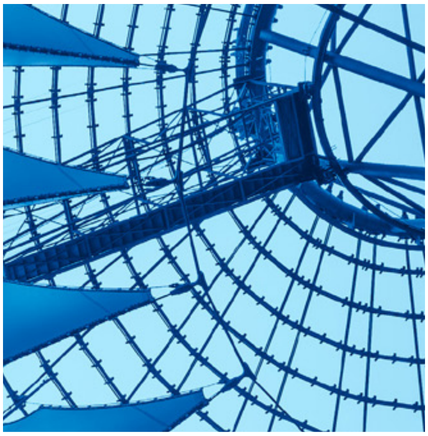

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Central clearing: Looking at the IRS and repo markets

With the interest rate landscape as a backdrop, and following on from its acquisition of BME Group, Jose Manuel Ortiz Repiso Jimenez, head of Clearing and Repo operations, SIX, talks to Justin Lawson about central clearing

How do you see the current landscape of the IRS and repo market, and what trends are shaping their future?

Within the interest rate swap (IRS) market, EMIR 3.0 currently sits at the forefront of market participants' minds.One of the key components of EMIR 3.0 is the active account requirement (AAR), whereby EU counterparties will be mandated to set up active accounts at EU CCPs, together with minimum clearing quotas, for certain interest rate derivatives. The release of the regulatory technical standards (RTS) for this regulation will take place in Q4 this year, with a subsequent go live pointing to the middle of 2025.

In terms of what this means for the future, the key question for the market is what constitutes a reduction in systemic risk from an EU perspective, and perhaps what this translates into in relation to a future migration of risk of euro clearing to the Eurozone. While we would expect this process to be an evolution rather than a revolution, it seems the framework for a migration for a proportion of risk in these products into the Eurozone is starting to take shape. SIX understands that to a certain extent the onus is on us, as a CCP within EMIR, to offer an alternative EU clearing solution to participants that helps to facilitate any migration of risk resulting from EMIR 3.0 while mitigating any additional costs that may be incurred.

In addition to the above, and in light of recent and ongoing economic pressures in relation to rising interest rates, SIX is also aware of the demand from market participants for new liquidity pools in repo markets. Furthermore, cleared repo volumes have peaked as demand for secured funding has grown. Our repo clearing segment (through our Spanish CCP) allows members to clear repo transactions on pan-European sovereign debt. Additionally, SIX has extended incentives, in relation to revenue share opportunities, to the repo clearing segment ensuring alignment with those implemented in the IRS segment. So to summarise SIX can offer market participants a competitive repo and IRS clearing offerings, providing access to new liquidity pools, while simultaneously offering unprecedented revenue share opportunities.

How has the acquisition of BME Group enhanced SIX Clearing's capabilities, and helped to better serve your clients across different asset classes?

The combination of BME and SIX, both of which are leaders in their domestic financial markets, has created a more diversified group with a strong presence across Europe, becoming the third largest European financial market infrastructure group.

The acquisition has strengthened both the Spanish and Swiss ecosystems, bringing new capabilities to participants and attracting new global capital pools to Spain and Switzerland. It is also important to note that the products and assets classes covered by BME are totally complimentary to those offered by SIX. While SIX x-clear clears UK, European, and Nordic cash equities across multiple venues as an interoperable CCP, BME clears Spanish cash equities, exchange traded derivatives (ETD), crypto, energy and has particularly strong offerings in both repo and IRS as mentioned previously.

In Q1 2025, SIX x-clear will go live with preferred clearing on all Euronext markets, thereby enhancing its market reach to benefit the wholesale market. In addition, SIX x-clear has recently launched a dedicated retail trade offering to enable the retail investor community to realise the benefits from CCP clearing and settlement netting at a significant cost saving.

The regulatory landscape for IRS has been shifting, particularly with the introduction of EMIR 3.0 and the Active Account Requirement for EU counterparties. How is SIX adapting to these changes, and what key challenges are impacting your clients?

SIX engages with the IRS clearing community to ensure we meet the demands for choice and competition within the changing regulatory landscape. The general market consensus is that any enforced regulation that requires market participants to open an AA at a EU CCP, will result in increased fragmentation of portfolios and additional costs. SIX is acutely aware of the additional funding and execution costs that euro counterparties will incur as result of the active account requirement. Our suite of concessions and incentives, to include competitive fees and a revenue share programme that is threshold-driven and open to all rather than a select few, will mitigate these costs and offer an alternative IRS clearing solution in Europe based on, not just regulatory obligations, but also commercial considerations.

Furthermore, SIX Clearing is looking to enhance our IRS offering by implementing a multi-currency model. This product enhancement will ensure the pool of participants who can benefit from the concessions and revenue share programme on offer at SIX Clearing will be increased to non-euro counterparties. SIX is also looking to expand the scope of its collateral eligibility schedule and offer additional ISINs covering multiple countries of issuance and security types for intraday (ITD) and end of day (EOD) margin calls, which again will offer greater flexibility in meeting margin requirements.

SIX Clearing's IRS and Repo Partnership Programme is represented as a unique offering in the market. Can you elaborate on the benefits this programme provides to members?

Partnership or revenue share programmes are not new to the market. However, revenue share and partnership programmes have historically only been open to a handful of market participants, which usually consists of the top 10 clearers at any one CCP. However, the IRS and repo partnership programmes on offer at SIX work on generous revenue share principles, and it is open to all members who trigger a very modest initial margin (IM) threshold.

Once the threshold has been triggered, a monetary kick back of the basis points spreads charged to collateral balance will be paid back to the underlying member on a monthly basis. In addition to this, there is also a further kickback on a proportion of clearing fees. The fact that the revenue share programme is open to all members is unprecedented in the market and, coupled with exponential fee savings in both IRS and repo, SIX is ideally positioned as an attractive alternative in Europe for all IRS and repo clearing requirements.

Liquidity is a key concern for market participants. How is SIX ensuring ample liquidity on its platform?

In addition to the exponential fees saving and revenue share opportunities already available for IRS and repo clearing, SIX are also exploring (subject to regulatory approval) a first movers or liquidity provider programme. The aforementioned programme is designed to offer liquidity providers potential revenue share, to include revenue generated by both spreads on collateral and fees, at segment level. This equates to a very attractive and generous revenue share opportunity for the first five years and perpetual annual member level revenue share opportunities beyond five years.

Disrupting traditional models: A new strategic path

Victor O'Laughlen, executive platform owner at BNY Global Clearing, discusses in-house versus outsourcing, and how 2025 will bring about the next step in the industry's evolution

In the evolving landscape of securities finance, the traditional model that assumes market participants both self-clear and self-finance has been deeply ingrained, due to the control it affords over operations, risk management, and liquidity. However, with advanced technologies and specialised agent clearers, the market can reconsider this model.

Specifically, broker-dealers can confidently outsource clearing and settlement, while maintaining their self-financing capabilities and counterparty relationships. This approach offers a strategic balance between operational efficiency and financial control, providing an alternative to the conventional model.

Clearing and settlement processes are complex and resource-intensive, requiring significant investments in technology, personnel, and regulatory compliance. By outsourcing these functions, the market can leverage economies of scale, reduce fixed costs, and convert them into variable costs that align with their transaction volumes that can lead to a 30-50 per cent reduction in fixed operations cost based on client feedback. This approach allows broker-dealers to allocate resources more effectively, focusing on core activities that drive revenue.

Some third-party clearing and settlement providers have invested heavily in technology, building sophisticated clearing platforms that use advanced data processing, AI, and predictive analytics to maximise settlement efficiency.

Developing and maintaining these technologies requires significant investment in teams of designers, engineers, and data scientists that may be prohibitively expensive to develop and maintain in-house for some firms. Such capabilities include trade processing, real-time settlement monitoring, and risk management, all of which contribute to more efficient operations.

Additionally, outsourcing allows the market to tap into the specialised expertise of these providers, ensuring that their operations remain compliant with ever-changing regulatory requirements, such as the treasury clearing mandate, while benefiting from the latest technological advancements.

The regulatory environment in securities finance has become increasingly complex, with stringent requirements around reporting, capital adequacy, and risk management. Outsourcing can help market participants navigate this regulatory landscape by partnering with providers who have deep expertise in compliance.

Specialised service providers are equipped to handle the nuances of regulatory reporting, reducing the risk of non-compliance and the associated penalties. Moreover, by outsourcing, one can enhance their risk management capabilities, as third-party providers often offer advanced risk monitoring tools that provide real-time insights into market exposure and counterparty risk.

Maintaining a self-financing capability and counterparty relationships

In a world where trade processing, clearing, and settlement can be efficiently scaled up and down through agent clearing platforms, market participants can focus on their core strategic advantage of self-financing and managing their counterparty relationships. This decoupling allows them to maintain direct control over liquidity management and financial risk, which are critical aspects of their operations.

Liquidity is the lifeblood of any company's operations, and during periods of volatility liquidity management is a critical differentiator. By maintaining self-financing capabilities, firms can ensure they have the flexibility to manage liquidity according to their specific needs and relationships. Self-financing allows market participants the control over their capital to fund trades and manage their balance sheets more effectively.

Using platforms that have invested in analytics, datasets, and digital tools, can enable seamless sourcing of liquidity through resource optimisation. This includes pre and post-trade analytics, including sophisticated collateral optimisation services, ensuring firms remain well-positioned to access liquidity and reduce funding costs even in times of market volatility.

Similarly, relationships with financing counterparties are a critical component of an effectively managed business model. These relationships are built on trust, reliability, and the ability to manage risk effectively. By retaining self-financing capabilities, market participants can continue to manage and diversify their counterparty risk directly, ensuring they have the necessary collateral and credit arrangements in place.

This direct management of counterparty relationships also allows broker-dealers to negotiate more favourable terms and respond quickly to changes in market conditions. The leading agency clearers can provide differentiated tools to help manage this process in addition to the liquidity they can provide themselves as a counterparty to their client.

Decoupling self-clearing from self-financing can introduce a new dynamic in risk management that broker-dealers must carefully evaluate. While outsourcing clearing and settlement can reduce operational risk, without sufficient insight and tools it also introduces counterparty risk associated with the third-party provider.

Using an agent clearer that provides a strong, consistent balance sheet, credit rating with resilient technology are key considerations in any outsourcing decision. This includes assessing the provider's ability to manage operational disruptions, such as technology failures or market shocks, which could impact the clients' operations. Market participants should also establish detailed clearing agreements and maintain ongoing monitoring of the provider's performance to mitigate counterparty risk.

> "Retaining self-financing capabilities while outsourcing clearing and settlement allows broker-dealers to maintain strategic flexibility in their risk management approach."

However, the leading providers, often affiliated with leading banks, typically have robust systems and processes in place, backed by significant investments in technology and infrastructure and can reduce operational risk when evaluating the holistic, end-to-end trade lifecycle process. This can lead to fewer operational errors, faster trade processing, and more reliable settlement, all of which contribute to a more stable and efficient operation. Sophisticated clearers can, for example, offer access to liquidity through their fungible box of securities that allow for an increase in settlement velocity and efficiency, which may surpass what is possible when self-clearing.

Retaining self-financing capabilities while outsourcing clearing and settlement allows broker-dealers to maintain strategic flexibility in their risk management approach. By decoupling these functions, broker-dealers can focus on managing market risk, credit risk, and liquidity risk directly, while outsourcing operational risk to a specialised provider.

This separation of responsibilities can lead to a more focused and effective risk management strategy, as broker-dealers can allocate resources to the areas that have the greatest impact on their financial stability and performance.

Flexible Financing: A balanced approach to modernisation

2025 will see an important new chapter in the market's evolution with BNY's new Flexible Financing solution, combining the operational efficiencies of outsourcing with the financial control of self-financing.

The integration of our outsourced clearing, collateral management and securities finance businesses allows us to offer this solution to the market, giving our clients the tools to manage the efficient movement of securities across the outsourced clearing service and our securities finance and collateral management platforms, to optimise the most efficient use of assets enabled by our collateral optimisation service.

Whether it be a delivery to a broker-dealer's counterparty using our fungible box of securities and back office operations, the facilitation of self-financing corporate bonds in the triparty repo market, or generating liquidity for your Fed-eligible portfolio via our Fixed Income Clearing Corporation (FICC) Agency Clearing Model and Sponsored Repo solutions, we provide the connectivity to market infrastructure, and enable the workflow to automate business process and optimise liquidity.

Our market-neutral business model means that we do not compete for balance sheet with our clients in times of volatility, so clients can rely on the consistency of our proprietary financing through our margin lending, short coverage, and fully paid securities lending products.

By outsourcing clearing and settlement, broker-dealers can reduce operational risk, gain access to advanced technology, and ensure compliance with complex regulatory requirements, all while maintaining direct control over and improving the utility of their liquidity and counterparty relationships.

As the securities finance industry continues to evolve, market participants that leverage the tools and scalability of agent clearing platforms can focus on their core competencies of managing liquidity, credit and market risks more seamlessly through a flexible and efficient resource management capability.

Firms who embrace this balanced approach may be better equipped to navigate the challenges and opportunities of the modern market. By strategically decoupling self-clearing from self-financing, market participants can optimise their operations, enhance risk management, and position themselves for long-term success in a rapidly changing environment.

Eurex repo roundtable series 2024

After years of QE and a low interest rate environment, Eurex's Frank Gast, managing director and global head of Repo Sales, and Carsten Hiller, Head of Repo Sales Europe – FIC Derivatives & Repo Sales, look at how the European repo market has shifted, single ISIN activity and trends across the region's bond lending

Eurex began hosting its inaugural repo roundtables in spring 2024, in a sign of both its central role in European cleared repo markets and the increasingly important role those markets are playing for the continent's funding needs.

The roundtables are vibrant forums for discussion on monetary policy and developments in the range of cleared repo markets that participants can access. To commemorate both the launch of the roundtables and this pivotal moment in repo markets, Eurex is releasing a series of articles that capture the most pressing issues facing the European cleared markets today.

In this first article, released after the roundtable in Frankfurt on 26 September, we look at the current situation of Eurozone monetary policy and how it can be expected to influence repo activity. The piece includes expert commentary from Frank Gast, managing director and global head of Repo Sales at Eurex.

Since 2022, the European Central Bank (ECB) has embarked upon a major shift in its monetary policy, as it moved away from more than a decade of ultra-low interest rates and quantitative easing (QE), and towards a more normalised environment.

“Falling demand for bunds has been compensated for by a growth in OAT, BTP and bono activity at Eurex, as it expanded its collateral base.”

Frank Gast
Managing director and global head of Repo Sales
Eurex

This shift has significant implications for private funding markets. After such an extended period of favourable funding conditions from the ECB, the excess liquidity that built up in the eurozone is starting to abate. As such, market participants are considering how to meet their funding needs in a near future where central bank stimulus cannot be relied on as easily. While excess liquidity is still at historically high levels, this situation is not expected to last beyond next year.

Observable changes are already taking place in Eurex’s cleared repo markets. After a period in which special repo operations rose under QE, a move towards GC Pooling repo has been underway since the ECB started hiking rates in 2022.

“Repo markets will play a very crucial role in funding plans as excess liquidity reduces further,” says Gast.

“In recent years, we have seen a lot of specialness in the market. A lot of single ISIN repo was being traded across bilateral and cleared markets. However, this trend was particularly acute at Eurex, with single ISIN activity constituting as much as 90 per cent of all activity at times. That was a major shift that took place over the last five to six years, with more single ISIN liquidity at Eurex cleared repo than in GC Pooling. That then started to change about two years ago, with GC Pooling activity strongly increasing again.”

The return of GC Pooling formed part of a wider shift in market patterns, as trading strategies that had been dormant under the flattened curve conditions of QE, such as spread and arbitrage trading, re-emerged. In addition, new market entrants in cleared repo — namely buy side firms — provided an additional dynamic to the development of GC Pooling volumes.

However, the return to normalcy has been complicated more recently, after two rate cuts this year. Those actions triggered a slowdown in the uptick of GC pooling activity and term repo, as market participants assessed how deep the central bank would go with its rate cuts.

This also sparked a new burst of special repo activity at Eurex. During the long period of loose monetary policy, QE dynamics had driven demand for single ISIN repo, as the ECB flooded euro markets with cash while hoovering up bonds — creating collateral scarcity.

When rates rose, some single ISIN repo also experienced an uplift, as hedge funds moved to short the bund. This created demand for bunds to cover those short positions.

Now, there has been a general market repositioning to long positions, in line with a rate-cutting cycle, which has come alongside an increasing supply of bunds. The spread between bund and the euro short-term rate (€STR) has noticeably tightened this year, as specialness fell and bunds became cheaper — returning to their pre-QE levels.

Falling demand for bunds has been compensated for by a growth in OAT, BTP and bono activity at Eurex, as it expanded its collateral base. This was achieved with the introduction of new and significant repo market participants to provide liquidity, and improved quoting across government bonds through mechanisms such as balance sheet netting and new break terms.

BTPs have been a noticeable example, with Eurex raising its risk limits for Italian clients and securities last year as part of its annual review of those risk limits. This included higher limits for BTPs and wrong way risk limits for Italian clients. These limits will continue to rise as BTP collateral both becomes a more established part of the Eurex ecosystem and occupies a greater space in the eurozone ecosystem as Italian banks — active users of targeted longer-term refinancing operations (TLTRO) — repay those loans and receive their collateral back.

The clearing ecosystem

While ECB policy exerts a strong influence across repo markets, the Eurex cleared repo market also hosts its own particular liquidity dynamics. Cash providers include debt management offices (DMOs), agencies, central banks and buy side firms that cannot deposit at the ECB. This has maintained reliable liquidity in cleared repo from these market participants, which cannot exit the market to take advantage of any changes in ECB deposit rates. Consequently, their presence provides an important balance of market participants for supporting a liquid market. For government deposits and other non-monetary policy deposits, the return on cash at Eurex Repo also offers a superior return compared to the ECB remuneration rate of €STR minus 20 basis points.

As falling excess liquidity pushes more market participants into repo markets for their funding needs, the diversity of the Eurex cleared repo market is only set to increase.

"As falling excess liquidity pushes more market participants into repo markets for their funding needs, the diversity of the Eurex cleared repo market is only set to increase."

Carsten Hiller
Head of Repo Sales Europe
FIC Derivatives & Repo Sales
Eurex

Regulation as the drive and brake for digital transformation

Speaking with industry experts, Daniel Tison explores how evolving regulations are simultaneously accelerating and hindering digitalisation in securities finance

As the financial landscape is rapidly evolving, regulatory frameworks are becoming increasingly complex, and the pressure on companies and institutions to innovate is intensifying. While new technologies offer solutions to streamline operations and compliance, they also present challenges and security risks that need to be addressed.

According to Roman von der Höh, managing director at RAQUEST, one of the key benefits that digitalisation brings to securities finance is the automation of regulatory reporting.

“Regulation drives automation and digitalisation because the more regulations you need to cover, and in order to be compliant, the more technology you need to use," he says. "It's so many data points, so many interfaces and gateways to different authorities, and you need to play around with those, so you can't do it manually anymore."

The traditional, paper-based method of regulatory reporting is inefficient, risky, and more costly, according to von der Höh. To help companies with automation, RAQUEST provides financial institutions with software for reclaiming withholding taxes.

This includes compliance with the Faster and Safer Tax Relief of Excess Withholding Taxes (FASTER) Directive, introduced by the European Council in May 2024. The new rules aim to make withholding tax procedures in the EU more efficient and secure for investors, financial intermediaries, and national tax administrations. For von der Höh, EU FASTER has two angles: quicker tax relief for investors in digital assets, and prevention of tax evasion and tax fraud. "If you have proper tax reporting along the whole custody chain of all intermediaries, you get so many data points that you can clearly address tax fraud and tax evasion," he says.

EU member states will have to transpose the directive into their national legislation by 31 December 2028, and these national rules will have to become applicable from January 2030.

However, as von der Höh adds, regulation can also hinder the process of digitalisation for industry participants.

"What we have seen over the last couple of years is that banks struggle so hard to comply with all the new regulations like GDPR," he says. "They spend all of their budgets with expertise and IT architecture on those pieces because they just have to, so then there is nothing left budget-wise to address innovation, to address digitalisation."

Fear of missing out

Phil Brown, CEO of Clearstream Banking, believes that there is an exciting future ahead by combining tokenisation and native digital securities with securities finance. However, he prefers a more cautious approach to make the transition suitable for a wider market.

"One of the reasons a lot of these projects fail is because the market is not ready to adopt a totally new end-to-end infrastructure," he says, "so we decided to provide a journey to a full on-chain world that made it easy for the market to move with us along that journey."

Brown warns against a 'fear-of-missing-out' mentality around technology where companies innovate just to stay with the perceived progress of the competition. He says that Clearstream instead wanted its technology to be "impactful".

"The key is to choose the right technology to solve the problem," he says. "We started our D7 platform with a semi-DLT model, we put it into implementation, we tried to scale it, and we found that it had limitations. Then we went back and, with our partner Google, we've retooled the technology into a much more scalable technological infrastructure."

> "Digital first, as opposed to digital second, is going to be a theme for the next five years, and the interesting question is going to be, how do you manage?"

On that note, Leo Labeis, CEO of REGnosys, stresses the importance of planning ahead and having an agreement within the company before launching new technology.

"It's not just about coming up with shiny technology and then, suddenly, everything is going to work according to plan," he says. "It's about everything around it, and how you promote that transformation within the organisation, which means making sure that you buy in from the relevant stakeholders and making sure that you have an alignment internally that everybody effectively wants to move in that direction.

"You need to have a very solid business case that is articulated, including the economic basis for doing it, so you don't run a risk. The worst thing is when you embark on a transformation, and then it's half-baked when suddenly people have a change of heart, and usually that's because you have some of the key ingredients missing."

New technologies to the test

Some of the benefits of migrating into the cloud, according to Brown, are faster processing, cybersecurity coverage provided by proven companies, and the option to overlay digital native technology on top of the data stored in the cloud. However, there are also certain challenges to some of the new technology models.

"It's fine, as a proof of concept, to issue one security in a closed ecosystem where everybody agrees how it's going to work and then works on that specific use case to get it to work," says Brown. "Our experience is that when you try and scale it, you start to uncover the limitations of the infrastructure that you might have designed. So scalability is really critical. You also have to understand how you will move from a small-scale closed ecosystem to much wider adoption."

He believes that there needs to be a central bank digital currency in order to deliver widescale digitalisation of the European repo market, which is currently being tested in the European Central Bank (ECB) trials.

In these trials, running from May to November this year, market participants, including Clearstream, are exploring new technologies to settle wholesale transactions using real central bank digital money.

Brown comments: "The ECB trials are a really important factor in figuring out what a future world looks like with settlement against a real on-chain coin issued by a central bank."

To allow financial firms in the UK to test new technologies in a safe environment, the Bank of England (BoE) and the Financial Conduct Authority (FCA) have recently introduced the Digital Securities Sandbox (DSS), which is now open for applications.

This follows positive feedback from stakeholders to a public consultation running between April and May 2023.

Sarah Breeden, deputy governor for financial stability at the BoE, says: "The DSS will provide a guided live environment for innovators in this area to create and trade these digital securities so that opportunities created by this innovation can be maximised in a way that keeps our financial system safe.

"We'll apply flexible and proportionate regulations created specifically to facilitate this activity. Flexible rules allow us to make adjustments as we learn to support the safe development and implementation of these technologies."

The DSS, running at least until December 2028, is open to firms of all sizes and at all stages of development as long as they are legally established in the UK.

Breeden adds: "Taking this approach means we can shape a new, permanent regulatory regime that's innovation-friendly and fit for purpose, and importantly, without compromising financial stability."

The sandbox also allows firms to test legislative changes in real-world scenarios before their implementation.

On the same page

Effective regulation is important, says Brown, to ensure that investors are protected in the same way as in the "pre-digital world".

According to Labeis, there is currently a lack of standardisation in securities finance, which limits interoperability between new technological solutions. As head of a regulatory technology platform, he sees standardisation as a prerequisite for further digitalisation of the market to be effective in the long run due to its role in regulatory reporting.

He says: "It's very easy to see that if you did have a market operating with data standardisation at its heart, then being able to report transactions to the regulators, or trade repositories, would be drastically simplified, as opposed to the current way of doing it, which is each and every participant or their technology vendors have their own way of representing those transactions."

To reduce the susceptibility to cyber threats across the financial sector, the EU has introduced the Digital Operational Resilience Act (DORA), which will apply as of 17 January 2025. By creating a uniform regulatory framework across the EU, the regulation aims to harmonise national regulations regarding cybersecurity in the financial sector and strengthen the European financial market as a whole against cyber risks.

In addition, the European Supervisory Authorities (ESAs) have developed regulatory and implementing technical standards, which are also legally binding for financial entities and their IT providers.

Labeis is in favour of DORA because he believes that it will help increase the standardisation within the industry, bringing a capacity for stakeholders to switch between technology providers “much more easily” than what they are currently able to do.

“When you try to switch from one provider to another, it’s typically very costly, which is why there is a lot of stickiness,” he says. “By that reasoning, if you make it easier and more seamless for firms to be able to choose their solution provider for particular aspects of how they carry on their business, then it means it becomes a lot more cost-effective for them, and ultimately builds resilience.”

Brown feels confident that DORA will not have a huge impact on Clearstream because the firm is already “highly regulated”. However, he adds: “The question is what does it do to companies that are not regulated, how do they respond to the DORA regulation, and what kind of pressures are going to put on there? That’s where DORA will start to shine a light on where the risks are in the supply chain from a digital resiliency perspective.”

Looking ahead, Labeis anticipates that digitalisation will have a “massive” impact on the securities finance industry: “Digital first, as opposed to digital second, is going to be a theme for the next five years, and the interesting question is going to be, how do you manage?”

As an example, he provides digitisation of legal agreements between counterparties. He believes that a greater degree of standardisation would also benefit the digitalisation of collateral management.

“Anything that removes the frictions that are there to free flow of collateral between counterparties will unlock more liquidity that is effectively available to oil the system, which then supports economic growth,” he says, “and you can’t achieve these dramatic increases in that collateral availability through that free flow if you don’t have digitalisation of those processes and themselves supported by a higher degree of standardisation.”

Relationship-driven world

Although digitalisation saves time on a daily or monthly basis, it still requires regular manual maintenance due to regulatory overhauls, as von der Höh explains: “You need to have the technical capabilities that dock on different interfaces, internally and externally. That is a big, huge challenge.”

Complete automation of the system would require advanced machine learning and automatic software engineering, which does not seem possible to von der Höh at the moment, but he sees a large potential for the near future, with the development of blockchain and smart contracts.

“What I strongly belive is that AI will play a big role, and then digital interfaces like API, to transform and send over data to any kind of stakeholders, that will also be a part of it.”

"Technology will facilitate the connectivity, and will certainly drive efficiency, but humans will continue to have to work together."

Despite increasing efforts to employ AI and machine learning in an increasing number of processes, Brown believes that the human touch is still needed because securities finance is a “relationship-driven world”.

“[Trade matching] can be an automated process, as can basket construction, but you are going to have a human element,” says Brown. “We’re not yet in a world, and I don’t think we’re anywhere near a world, where you will predominantly meet people digitally and trade with them without having had a human interaction.”

He adds: “It’s so important, especially in stressed markets, that you have personal relations with people, so that you can actually look in the whites of their eyes and feel confident in your counterparty. Technology will facilitate the connectivity, and will certainly drive efficiency, but humans will continue to have to work together.”

Key insights from the collateral management world

After attending Fleming's Collateral Management and Securities Lending Forum, Carmella Haswell provides insights from industry experts on innovation, optimisation, and the new age of geoeconomics

Amsterdam is known for its artistic heritage, incredible 17th Century canal belts, and is home to the world's oldest stock exchange. The Netherland's capital also played host to Fleming's Collateral Management and Securities Lending Forum earlier this month.

The two-day event presented in depth discussions relating to collateral management and its evolution, including the significance of AI and digitisation, barriers to optimisation, and the events impacting the market through the eyes of a pension fund. Securities Finance Times presents the key insights from the event in this article.

Innovation needed in collateral management world

Innovation needs to be implemented within the collateral management world, according to Itzel Soto Narvaez, head of global collateral management at ING.

Balancing the demands of regulation, scrutiny, market conditions, and strategic change. All of these elements compete within the priority list, leaving little room to work on improvement, innovation, and automation, she adds.

Automation and AI trends in the collateral management space, as well as how technology and cooperation among the industry can help to better navigate, were key topics of discussion in the ‘Collateral Management Operational Trends and Innovation’ panel.

The collateral management function is fully tested during market turmoil and geopolitical events, she said, and the function needs to demonstrate the resilience, accuracy and organisation of the process.

Soto Narvaez opened her panel with an overview of the main market events that have hit the collateral management domain in the world during 2024.

This included ongoing geopolitical tensions (the war in Ukraine, escalations in the Middle East etc); the sharp downturn in US manufacturing and employment data in August, which led to significant stock market volatility; and the upcoming Taiwanese presidential election, which poses risks to global markets, particularly given the country’s role in the semiconductor industry.

Expanding on this last point, Soto Narvaez warned that any instability in the region could impact supply chains and investor sentiment.

Moving on, she discussed ING’s core focus in the area of collateral management.

“One of the most important aspects for us has been the integration of systems,” said Soto Narvaez. “All collateral activities need to be done in one single platform.”

For ING, it is important to consolidate the collateral processing of securities financing and OTC derivatives in one single system, to better respond to market events, produce meaningful data for the front office for the risk management function, and to increase the level of reporting towards regulators.

Automation and AI

During her discussion at the event, Soto Narvaez explored the main AI trends she has seen in the market, in relation to collateral management.

Currently, vendors are pushing to implement AI-powered margin call optimisation. Soto Narvaez believes this will help to eliminate the need to interpret email communication for margin calls, and instead automate decision-making for margin calls.

“There’s still room to automate further the dispute management and portfolio reconciliation processes,” she added. “AI can further help us here in normalising data for EMIR-related reconciliation.”

In addition, there is a push for the implementation of robotics process automation (RPA), the audience heard.

“On our side, we have already implemented certain robots that help us to execute routinary tasks, especially when it comes to information shared between internal systems, providing a reduction in manual processes,” Soto Narvaez explained.

In regards to blockchain and distributed ledger technology (DLT), she stated that there is still room to incentivise the industry to join proof of concepts. “There has been a push, but there is not a large effort from big participants to prove that the technology works properly and that it can be used.”

Soto Narvaez also touched on trends relating to cloud-based collateral management platforms with AI, AI-driven fraud detection and cybersecurity, as well as advanced reconciliation with AI and RPA.

In her conclusion, she commented: “From my perspective, I believe collateral managers in this upcoming year have a great opportunity to optimise further, to optimise and leverage regulatory change, and to automate even further.

“AI and digitisation is not the new trend but is a necessity to make sure that firms are responding properly to market events and geopolitical circumstances.”

Collateral optimisation requires a pragmatic approach

Collateral optimisation is a topic of much interest. But when it comes to the execution and how to invest, and how to put in place a solution to optimise collateral, this is where things become more difficult, and where “we need to find a pragmatic way to put that into place”, said Wassel Dammak, head of collateral solutions strategy at VERMEG.

The ‘Optimizing Collateral Assets: Balancing Efficiency and Pragmatism’ panel discussed collateral optimisation in terms of governance, data, technology, as well as building the business case.

At the event in Amsterdam, the panel touched on the “many benefits” of collateral optimisation.

With collateral optimisation, he believes firms can reduce their assets funding costs. He reported that studies by advisory firms show how collateral allocation can reduce funding costs by up to 20-30 per cent.

In addition, collateral optimisation can bring operational efficiency, he added, which can reduce operational costs by approximately 15-25 per cent.

Furthermore, the audience heard how this tool can lower counterparty risk and reduce liquidity buffer requirements, as well as enhance revenue.

Although there are “many benefits”, building a business case for collateral optimisation investments faces multiple barriers, Dammak warned.

There are regulatory complexities. “People are still trying to optimise their regulatory compliance, the way they calculate SIMM for example,” he added. Compliance requires significant resources and can delay optimisation efforts.

In terms of operational inefficiencies, “it does not make sense to try and run if you cannot walk”. He continued: “Firms cannot execute optimisation if they do not clean up their inefficiencies first.”

Another barrier to optimisation is data and technology limitations. Dammak said optimisation has certain prerequisites: “If you need to optimise, you need to gather the data, centralise all of your inventories that you would like to use for your deliveries of your collateral assets; you

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need to centralise all of your collateral demands if you want to scale."
He continued: "If you do not have the data, if you do not have a system where you can fetch the data through APIs, if you struggle from a technology point of view, it is a problem."

Market structure frictions — such as settlement timing conventions — are constraints to take into consideration when optimising. There are also cost and resource constraints, as well as risk management concerns.

Addressing these barriers often requires a strategic approach, including investing in technology, streamlining processes, and ensuring regulatory compliance.

Dammak advised that to achieve a pragmatic approach, firms need to identify pain points, demonstrate return of investment, engage stakeholders, adopt a phased implementation and partner with experienced vendors.

In conclusion, Dammak said: "At the end of the day, the easiness of the implementation of such a solution should be the first thing we need to think of before engaging in more detailed discussions."

Industry must adjust to a new age of geoeconomics

In the coming quarters and years, there are some changes that will be great for collateral management and securities lending, while some other trends will not be propitious, according to Nicolas Firzli, director general at the World Pensions council (WPc).

Firzli discussed the coming 'Age of Geoeconomics', securities finance and AI-driven trading and settlement moving centre stage, and what pension funds and sovereign investors need.

On the whole, he believes financial policy, political, geoeconomic, and technological changes will be quite good for the industry.

"I foresee much more volatility, so we will have to adjust to that new age of geoeconomics, which is symbolised by the accelerating Sino-American 'new Cold War' — impacting many sectors of the economy, including tech and finance," he added.

Although the age of geoeconomic marks the end of the 'neoliberal' era of benign financialisation and East–West cooperation (1984–2023), in his discussion, Firzli also highlighted a "ray of hope" in the shape of sustainable finance, as more and more pension executives and board members (trustees) are keen to incorporate sustainable metrics in the way they borrow, lend, and how they do collateral management.

He suggested that "this is changing the world for the better".

Firzli continued: "It sounds like a paradox — the world is becoming more volatile and more cynical because of the Chinese and American rivalry, but at the same time, there is more idealism in the form of sustainability and employee capitalism (fiduciary finance). Yes, it is a paradox. The two are happening and accelerating at the same time."

Addressing the audience, Firzli indicated that "this is a pivotal moment in the history" of economics and finance, especially in Europe and the UK.

Fiduciary capitalism is clearly on the rise, he stated, now that pension funds are progressively "fully fulfilling" their natural role in the market — that of majority asset owners, and ultimate governance arbiters, across asset classes and geographies.

Covering a number of ideas on the industry and where it is heading. Firzli also stated: "Private markets are rising. So pension funds, sovereign funds, central banks, endowments and private savers — they're putting, on average, more money into venture capital, private equity, infrastructure assets and real estate, and even forestry and commodities, and they're putting relatively less money in bonds, and listed equity."

This shift is accelerating, according to Firzli. He said this means less business for old fashioned listed bonds and stocks. However, there may be more avenues for other lending businesses going forward.

Circling back to sustainable finance, Firzli says ESG is no longer an afterthought or an overlay, "it is at the core of everything that investors do", to the extent that some of the large European banks have stopped lending money to the oil industry. He added: "A year or two years ago, this would have been unthinkable."

He concludes: "In Europe, including the UK, we are on the verge of incorporating more ESG metrics in capital requirements themselves on a central bank and financial industry regulation level. So the cost of compliance will rise even more on the Old Continent, at a time when, following US elections, prudential capital and ESG requirements may well be loosened on Wall Street. (Trump Republicans and 'prairie populists' on the Democrat left)."

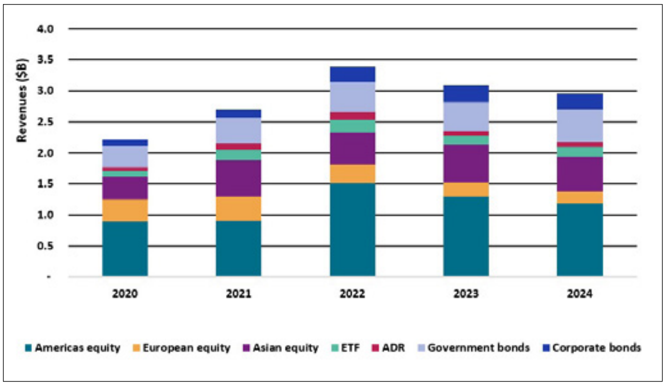
Q3 securities lending market performance review

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, provides an overview of activity in the third quarter, and his hopes for a strong Q4

In the last quarter, global stock markets experienced solid returns, pushing many regions to achieve double-digit year-to-date gains. The S&P 500 rose by 5.9 per cent, thanks to a broadening of investor interest beyond the dominant 'Magnificent Seven' tech giants. International indices also demonstrated resilience, with the MSCI Asia ex-Japan climbing 10.6 per cent and the MSCI Emerging Markets index rising 8.9 per cent.

Despite the overall positive performance, the end of August was marked by significant turbulence. Japan's TOPIX experienced its largest single-day decline since 1987, which led to a widespread sell-off across Asian markets. The MSCI Asia Pacific Index dropped by 3.5 per cent, as markets received mixed signals from the Federal Reserve and the Bank of Japan. In the US, renewed fears of a hard landing emerged following disappointing economic data and underwhelming earnings from major tech companies, while in Japan a larger than expected increase in interest rates spooked investors.

Q3 revenues by asset class



Source: S&P Global Market Intelligence Securities Finance

However, a rapid recovery ensued, bolstered by a decline in US jobless claims that eased recessionary fears and further communication from the Governor of the Bank of Japan. Meanwhile, China's equity market faced persistent pressure throughout the quarter until a stimulus package catalysed a substantial rally, bringing the CSI 300 index close to entering a bull market.

Central banks played a pivotal role in shaping market dynamics during the quarter. The Bank of Japan initiated its first rate hike in years, while Western central banks adopted a dovish stance, with the European Central Bank (ECB), the Bank of England (BoE) and the Bank of Canada (BoC) all cutting rates. The Federal Reserve also shifted towards easing, which bolstered market confidence. The US Treasury yield curve briefly disinverted, signalling changing market sentiments during the second half of the quarter, but a strong jobs report pushed short-dated Treasury yields higher in the closing days of the period.

In the securities lending market, Q3 revenues reached US$3 billion — a 4 per cent year-over-year (YoY) decline — bringing year-to-date revenues to US$8.8 billion. Notably, average fees across all securities declined by 11 per cent YoY, reflecting a decrease in special activity.

Equity market dynamics

The securities lending equity markets experienced YoY revenue declines across the board, with the largest drop being seen in the EMEA region (down 12 per cent YoY to US$197 million). However,

Top 10 revenue generating stocks during Q3 2024

Stock Name	Ticker or CUSIP	Exchange	Q3 Revenues ($MI)
Sirius XM Holdings Inc	SIRI	US Equity (Others)	$189.73
Beyond Meat Inc	BYND	US Equity (RUSSELL 2000)	$37.93
Cassava Sciences Inc	SAVA	US Equity (RUSSELL 2000)	$35.01
Tempus Ai Inc	TEM	US Equity (Others)	$34.65
lucid Group Inc	LCID	US Equity (Others)	$31.51
Nikola Corp	NKLA	US Equity (Others)	$19.01
Choice Hotels International Inc	CHH	US Equity (Others)	$17.52
Enbridge Inc	ENB	CA Equity (TSX60)	$15.60
Canoo Inc	GOEV	US Equity (RUSSELL 2000)	$15.04
United States Treasury (4.125% 15-Aug-2044)	912810UD8	US Govt Bond (Bonds) (Fixed Rate)	$14.75

Source: S&P Global Market Intelligence Securities Finance

September marked the first month of positive YoY comparisons of 2024 for EMEA as revenues grew by 1 per cent.

In the Americas, equity revenues fell by 9 per cent YoY to US$1.182 billion, though they did increase by 3 per cent when compared to Q2. Notably, average fees rose to 77 basis points while a slight recovery was seen in utilisation rates when compared with the second quarter of the year. Asian equities experienced an 8 per cent YoY decline to US$557 million, although Q3 was the best-performing quarter of the year for this asset class. The increase in balances by 1 per cent YoY was unfortunately offset by a 10 per cent reduction in average fees.

Exchange traded funds (ETFs) and American depository receipts (ADRs) performed well, with ADR revenues up 21 per cent YoY and ETF revenues growing by 6 per cent. The rise in borrowing activity was driven by increasing uncertainty regarding the magnitude and timing of interest rate changes, alongside various thematic trades linked to the upcoming US presidential election, the energy transition, the tech sector boom, and escalating geopolitical risks.

Fixed income market performance

The fixed income markets demonstrated strength, driven by central banks cutting interest rates during the quarter. Government bond lending revenues increased by 15 per cent YoY to US$535 million, with US Treasuries leading the charge after posting revenues of US$347 million, an increase of 24 per cent YoY.

Corporate bond balances also rose significantly after a quarter of strong issuance, competitive yields, and positive economic data. Revenues fell by 12 per cent YoY as average fees declined by 29 per cent. The 22 per cent growth in balances helped to keep revenues close to recent quarterly highs.

Outlook for Q4

Despite a decline in YoY revenues for securities lending participants, the overall market remains competitive, with Q3 revenues showing resilience compared to previous years. The liquidity pressures observed at the end of Q3 in the cash and repo markets may provide an opportunity for lenders heading into Q4 as money market rates increase along with high-quality liquid asset (HQLA) requirements, particularly as the year-end approaches and primary dealers face balance sheet constraints.

Looking ahead, Q4 is expected to bring continued volatility, with the VIX persistently trending above the important 20 level, amid on-going geopolitical tensions and the upcoming US election. Interest rates will be crucial for both equities and fixed income assets going forward, having a growing impact on securities lending revenues across both asset classes.

It is possible that Q4 2024 revenues could surpass the US$2.7 billion seen in Q4 2023 as a result of this market dynamic. However, the overall success of securities lending programmes will largely depend on hedge funds' willingness to engage in new trades amid this volatility and to a degree uncertainty, during the closing months of the year. ADRs, ETFs, and government bonds are all poised to shine, capitalising on diversification and hedging opportunities as the year draws to a close.

In summary, despite some challenges, the overall market sentiment remains optimistic, with strategic positioning likely to yield positive outcomes as the end of the year approaches. The interplay of economic events, central bank policies, and investor behaviour will continue to shape market dynamics for all market participants in the coming months, hopefully leading to a strong Q4.

Matthew Chessum
Director of securities finance
S&P Global Market Intelligence

An industry on the verge of change

Driving change is "deeply rewarding" for Chloe Shepherd, vice president and credit repo trader at Citi, who speaks with Daniel Tison about increasing diversity, equity, and inclusion in repo trading

Can you tell me about your journey into the securities finance industry?

I did my internship with the Royal Bank of Canada (RBC) in the summer of 2017 while studying at the University of Glasgow, which I was fortunate enough to convert into a place on their graduate programme in 2018. This is probably a carbon copy of most people's entry into the finance industry in the past 10 years. That said, I did enter the industry having done an MA in history, rather than the standard finance or economics degree. I also started my career in high-yield credit trading, moving into the repo and securities finance space as a trader, a year or so later.

Since then, I have not looked back, with nearly six years under my belt. Repo and securities finance did not get as much attention from graduates when I started my career due to the over-the-counter (OTC) nature, old-school style, and uniqueness of the products. But that is what really appealed to me — an opportunity in a product where you can see how fixed income markets function, from operations through to the front office. I owe an awful lot to my old team who shared their extensive knowledge and wealth of experience with me. I could not have asked for a better environment to learn in. It was that support and exposure during my first four years in securities finance that helped me navigate to where I am now.

As a young professional, what aspects of your role or the industry do you find most exciting?

As a trader, I get a lot of satisfaction out of executing trades, but the most exciting and fulfilling part of my role is being in an industry and product space that is on the verge of so much change — in terms of culture, technology, and the way we work. I am passionate about getting more women into trading and increasing social mobility within finance, as well as the automation of a heavily OTC repo market and technology within my firm. Change breeds opportunity, and driving that change is deeply rewarding.

Many companies offer various training and development opportunities for their employees. How has your company supported your growth?

Citi offers a variety of training and development opportunities, and I look forward to undertaking an in-house management course this autumn. It will be helpful to me as I manage new graduates and interns. We also have a women's leadership initiative within markets called RISE, which has a specific pillar dedicated to women in trading. Our focus is on mentoring programmes, as well as attracting and recruiting female junior talent into trading roles.

> "It really does make a huge difference, and it helps your career progression exponentially if you have supportive people surrounding you."

What misconceptions about working in the financial industry have you encountered, and how do you address these challenges?

The most common misconception is probably that you have to fit a mould to be a good trader. I have met a variety of traders over the past few years, and everyone has a unique way of working and attitude. It is so important to highlight and promote a variety of role models from different backgrounds to those who are just starting out in their careers in finance, or those exploring it as an option.

I work towards this internally with my position on the Citi Early Careers Committee, but also externally through volunteering to talk about my experiences for a variety of different charities and events, as well as promoting and talking about such issues on LinkedIn.

Looking ahead, where do you see yourself in the next five years in terms of your career goals and aspirations?

I would love to travel with my work. I collaborate with a variety of people from all over the world every single day, both internal colleagues and external clients. I believe there is so much value in meeting in person and cementing relationships further. There is only so much you can do over Zoom and a shared screen.

In terms of expanding my skill set and potentially trading more products, I am currently focused on flow credit, and I am super excited to get more exposure to different financing solutions such as total return swap (TRS) as the markets move that way. I am considering completing an external short course by the Cambridge Institute for Sustainability Leadership (CISL) entitled 'Business and Social Justice: A Force for Social Change'. I previously took their 'Women Leading Change: Shaping our Future' short course, and found it enlightening and helpful in enacting change in the organisations I have worked in, as well as with my work on the development board for a social mobility charity upReach.

What advice do you have for other young professionals aspiring to pursue a career in your industry?

Do not underestimate the value of having good people around you — good managers and people that you enjoy spending hours upon hours a day with. It really does make a huge difference and it helps your career progression exponentially if you have supportive people surrounding you. Also, do not be afraid of change, be able to pivot and take on new challenges and opportunities, as that is the only way you will learn.

Chloe Shepherd

Based in London, Chloe Shepherd serves as vice president and credit repo trader at Citi, as well as a development board member for the social mobility charity upReach. Prior to joining Citi, she worked as a repo trader at RBC Capital Markets. She earned a master's degree in history from the University of Glasgow.

Shepherd is passionate about diversity, equity, and inclusion (DEI). In 2023, she was shortlisted for the 'Rising Star' award at the Securities Finance Times Industry Excellence Awards and FTAdviser's Diversity Finance Awards, and in 2022, for the 'Next Generation Leader of the Year' title at the Women in Finance UK Summit and Awards.

Euronext appoints Blais

Euronext Securities has hired Jerome Blais as head of European expansion.

In his new role, Blais will work with Euronext clients, partners, and the broader European ecosystem to aid the integration of European capital markets.

He joins from BNP Paribas Securities Services where he spent nearly two decades, most recently as co-head of Triparty Collateral Services.

Euronext Securities stands behind the Euronext Central Securities Depository (CSD) network, bringing together the CSDs of Denmark, Italy, Norway, and Portugal.

The firm has recently expanded its technology services with the acquisition of Acupay Group.

State Streets adds Barbosa

State Street Corporation has appointed Maria Ximena Vasquez Barbosa as regional sales head for Latin America and the Caribbean.

With operations established in Colombia, Chile, and Peru, State Street's expansion into Mexico is part of its broader commitment to serve LATAM's growing financial markets.

Based in Mexico City, Barbosa will report to Oliver Berger, executive vice president and head of emerging growth markets at State Street.

Barbosa brings more than 20 years of experience in securities services to her new role.

She joins from Citibank, where she spent 11 years, holding various local and regional roles in several countries throughout LATAM.

Before that, she worked for Santander on LATAM capital markets.

NowCM hires Watson

NowCM, a market infrastructure and issuance provider, has hired James Watson as chief revenue officer.

Headquartered in Luxembourg, the company provides a comprehensive cloud-native data platform designed for debt management, along with a digital workflow platform.

Based in London, Watson will lead the expansion of the firm's product adoption while overseeing the sales, customer relationship, and onboarding teams.

Watson brings more than 30 years of leadership experience and cross-asset expertise to his new role.

He spent more than seven years with TraditionDATA, most recently as global head of data sales and marketing.

Previously in his career, he held senior roles at companies like Morgan Stanley and Société Générale Corporate and Investment Banking.

CISI recruits Atkinson

The Chartered Institute for Securities and Investment (CISI) has appointed Neil Atkinson as a board member.

The CISI board of directors comprises representatives who are typically drawn from the financial services sector and meet four to five times a year.

Atkinson is a CISI Chartered Fellow, which is the highest level of CISI membership, exclusively for professionals who have demonstrated the highest levels of knowledge and standards of professionalism.

With more than three decades of experience in financial services, Atkinson specialises in capital markets, post-trade, financial market infrastructure, clearing, and settlement.

Based in London, he serves as managing director and global client executive at Euroclear, responsible for the firm's client relationships.

EquiLend new CEO

EquiLend has welcomed the appointment of Rich Grossi as its new chief executive officer.

Grossi brings a wealth of experience in fintech, operational excellence, and strategic leadership to his new role.

According to the firm, this appointment positions EquiLend to accelerate its growth and innovate within the securities finance market.

Grossi previously served as the CEO of ION Corporates, a suite of trading, risk management, and workflow automation solutions.

During his tenure, he led ION to become a strong player in treasury and commodity management, consolidating several acquisitions, innovating the product suite, and delivering growth for the business across their customer base.

Earlier in his career, Grossi held various leadership positions at OpenLink, where he served as CEO, chief financial officer, chief product and technology officer, and executive vice president of global operations.

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