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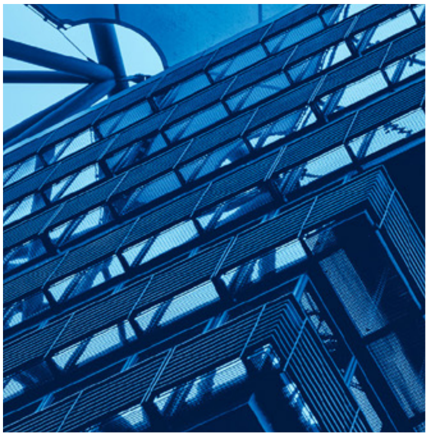
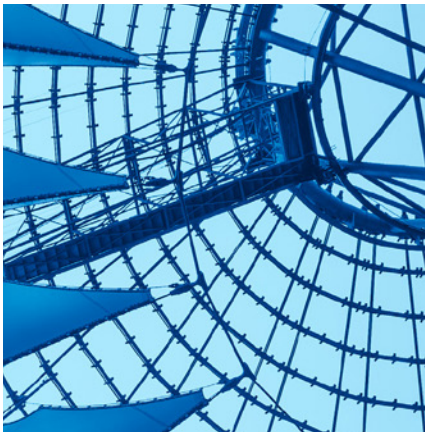
Increasing trust and optimal outcomes

eSecLending on the firm's journey over the past 25 years, how prospects become clients, and partnering with borrowers to bring solutions to market






HQLA^X facilitates settlement of intraday DvP repo using DLT

HQLA^X has collaborated with Clearstream and Eurex Repo to facilitate intraday delivery-versus-payment (DvP) repo transactions, using distributed ledger technology (DLT) in the European Central Bank (ECB) trials.

The transactions mark the first DvP repo trades to settle in production using HQLA^X's DLT platform.

Participation in the ECB trials demonstrates HQLA^X's ability to interoperate with other DLT platforms to settle DvP across two independent ledgers, the firm says.

The ECB trials are part of the Eurosystem exploratory work on new technologies for wholesale central bank money settlement, with trials denoting production transactions using real securities and cash.

The participants submitted the trades on the Eurex Repo F7 trading system. The trades were submitted same-day, and securities and cash were settled and returned intraday.

Clearstream acted as market DLT operator with its digital securities platform D7 and coordinated the settlement of the transaction between HQLA^X, which facilitated the collateral settlement, and the Bundesbank's Trigger solution for the cash settlement in real-time gross settlement (RTGS).

The transactions took place between Goldman Sachs and Clearstream, acting as principal, between 26-28 November with Goldman Sachs borrowing cash from Clearstream while delivering collateral via the HQLA^X platform.

Commenting on the achievement, HQLA^X CEO and co-founder Guido Stroemer says: "Through participating in the trials, HQLA^X has demonstrated its ability to interoperate with different forms of cash, including legacy cash in RTGS for DvP settlement.

"This is a significant milestone in creating an intraday DvP repo market in Europe, and we are excited to be part of its future development."

Amar Amlani, head of EMEA Digital Assets at Goldman Sachs, adds: "Intraday markets offer a valuable tool for institutions to optimise their liquidity and collateral more efficiently while also acting as a method to manage risks and create new revenue streams.

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Global securities lending revenue down

Global securities finance revenue for lenders decreased 0.3 per cent year-over-year (YoY) for November, generating US$779 million, says DataLend.

The market data service of EquiLend also reports that global broker-to-broker activity — where broker-dealers lend and borrow securities from each other — was down 3 per cent YoY for the month, totalling an additional US$208 million in revenue.

In its monthly review, DataLend says equity revenue declined globally by 6 per cent due to a 14 per cent YoY drop in fees.

With US equity indexes soaring after the presidential election, lending revenue for US stocks fell by 12 per cent, with average fees declining 25 per cent YoY.

Equity revenue in EMEA and APAC saw gains of 6 per cent and 2 per cent YoY respectively.

"The Taiwan and Hong Kong markets were bright spots," says DataLend, "with the former capturing 30 per cent in annual gains and the latter climbing 26 per cent."

Global government debt lending revenue increased 23 per cent YoY on the back of a 20 per cent YoY rise in balances and a 3 per cent YoY increase in fees.

US government debt remained the biggest factor in the market, according to the firm, with more than US$875 billion in on-loan securities generating 36 per cent more revenue YoY.

Corporate debt lending saw more modest annual gains, with revenue increasing 5 per cent globally. Fees for corporate bonds fell 15 per cent YoY, but revenue increased due to a 23 per cent jump in balances.

The top five earning securities in November were Tempus AI, Spirit Airlines, Enbridge, iShares iBoxx $ Inv Grade Corporate Bond ETF, and Trump Media & Technology Corporation. The five securities in total generated US$61 million in revenue for the month.

HQLA^X facilitates settlement of intraday DvP

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“DLT solutions such as HQLA^X combined with digital money solutions provide market participants with greater precision and simultaneous settlement which are critical for intraday markets to operate more effectively at scale and free up key resources.”

Jens Hachmeister, head of Issuer Services and New Digital Markets at Clearstream, believes that managing intraday repo transactions on the HQLA^X DLT platform has demonstrated clear advantages for the future of digital repo.

Frank Gast, member of the executive board at Eurex Repo, and global head of repo sales at Eurex, comments: “This has been an incredible opportunity for Eurex Repo together with our Deutsche Börse Group colleagues, our clients, and service partners to make a difference in the wholesale central bank money settlement trials.

“We're fully committed to backing the ECB's pioneering work in adopting DLT-based solutions, which are crucial for the future evolution of the repo market.”

FCA approves Clear Street’s UK launch

Clear Street has formally launched in the UK, following approval from the Financial Conduct Authority (FCA).

The launch of Clear Street UK is a pivotal step in the firm’s expansion plans outside of North America, throughout the UK and into broader markets, including across Europe, the firm says.

Clear Street has also been approved as a Category 1 Member by the London Metal Exchange (LME).

This membership places Clear Street among a select group with direct access to the LME’s trading floor, known as the Ring, as well as electronic trading via LMEselect and the inter-office market.

Regarding the LME membership, Chris Smith, CEO of Clear Street Futures, comments: “This is a significant milestone in our global growth strategy which immediately adds to our client service capabilities, particularly for many clients in Asia and the Middle East who value the Ring’s open outcry trading for official pricing.

“With a dedicated London-based team in place, we are confident in our ability to deliver exceptional value to clients across EMEA, Asia and beyond.”

According to Clear Street, the membership provides access to global reference prices for the metals community and allows the company to issue LME contracts, execute trades on behalf of institutional clients, and clear transactions seamlessly.

BrokerTec reports 16% YoY rise in US repo

CME Group’s BrokerTec has reported an average daily notional value (ADNV) of US$861 billion for November across US Treasuries, European government bonds, as well as US and EU repo.

This figure, derived from the firm’s Central Limit Order Book (CLOB), dealer-to-client (D2C) request-for-quote (RFQ), and streaming platforms, represents a 16 per cent year-over-year (YoY) increase.

In the US repo market, BrokerTec saw an all-time monthly record in November, with an ADNV of US$329 billion, up 16 per cent YoY.

John Edwards, global head of BrokerTec, says: "General collateral rates fluctuated during the month, with more surprises in November linked to an increase in open positions, more specials, and a larger amount of cash staying in and entering the overnight repo market."

Edwards explains that this was a direct result of the US election, the strength of the dollar, and the lowering of the Federal Funds range on 7 November.

"We continue to see elevated volume from new issuance, quarterly refunding in new 3s, 10s, 20s, and 30s, ongoing quantitative tightening of US$60 billion per month, and a record of 6.675 trillion in Total Money Funds assets," he adds.

US Treasury ADNV reached US$111 billion in November, as treasury markets fluctuated following the US election.

Liquidity in the US Treasury CLOB was resilient through this volatile period, according to Edwards, with average top-of-book depth in the 10-year Note increasing by 8 per cent YoY. In Europe, volumes for BrokerTec EU repo grew by 3 per cent YoY to €300 billion in November.

The highest ADV week and the second-highest ADV day were both achieved in the first week of the month.

Commenting on this development, Edwards says: "We saw good levels of activity in UK gilt repo in the days before and after the Bank of England's Monetary Policy Committee meeting when interest rates were cut by 25 basis points.

"Traders are now focused on the European Central Bank's upcoming rate decision scheduled for 12 December."

AccessFintech's Synergy launches Swaps Lifecycle Management

Synergy has launched a new Swaps Lifecycle Management service to build on its established derivatives solutions.

The new offering allows hedge funds, asset managers, prime brokers, broker-dealers, outsourced middle offices, and fund administrators to enhance post-trade efficiency.

Synergy uses AI and cloud-native infrastructure to normalise data, generate actionable insights, and resolve exceptions in real time.

The new Swaps Lifecycle Management service will include portfolio lifecycle management, OTC derivatives cashflow management, and payment processing automation.

Roy Saadon, CEO of AccessFintech, says: "The derivatives market has historic inefficiencies, and we are responding to what clients are telling us they need. We believe this new swaps service will be transformative, setting a new standard for the industry. As swaps and derivatives grow in scope and complexity, our clients are dedicating increasing resources to managing them."

BNY introduces CollateralOne for buy side offering

The Bank of New York Mellon Corporation (BNY) has integrated its LendingLite service with its new CollateralOne for buy side platform.

This new platform expands the triparty offering for the buy side by connecting clients to other aspects of BNY's ecosystem, the firm says, helping clients centralise how they manage their collateral and financing activities, while providing the option of opportunistic specials-only lending.

Adam Vos, global head of markets at BNY, comments: "In today's complex investment landscape, our clients are looking for comprehensive solutions that simplify securities lending, financing, and collateral management.

"With this integration, our buy side clients can leverage the benefits of engaging in securities lending within a single ecosystem."

CollateralOne for buy side is a new integrated platform supported by BNY's optimisation capabilities, providing clients with a complete view of all their BNY assets, liabilities and opportunities in one place.

By connecting its LendingLite service with the CollateralOne for buy side platform, BNY aims to allow clients to identify those specials, and help generate incremental revenue from lending, without committing to a full-scale securities lending programme.

Laide Majiyagbe, head of financing and liquidity at BNY, adds: “CollateralOne for buy side is yet another example of BNY’s commitment to developing innovative solutions that support our clients through every stage of the investment lifecycle.”

OCC average daily loan value grows 20.7%

The Options Clearing Corporation (OCC) has recorded a 20.7 per cent year-on-year (YoY) rise in average daily loan value for securities lending trades, generating US$172.5 billion for November.

Total securities lending transactions cleared on the OCC platform in November increased 13.3 per cent YoY to 249,141.

Total volume for all futures and options cleared through the equity derivatives clearing organisation increased 21.1 per cent YoY to 1.09 billion contracts for the month.

OCC experienced a 34.7 per cent YoY hike in equity options contracts for the month to 614.9 million. However, index options contracts faced a 0.5 per cent decline YoY to 83.9 million.

ETF options contracts cleared on OCC were up by 9.1 per cent YoY for November to 395.9 million, while cleared futures contracts jumped 4.1 per cent YoY to 4.4 million.

GLEIF enters into new collaboration

GLEIF has entered into a new initiative with the Netherlands Chamber of Commerce (KVK) to provide global data users with direct access to the official registry data within Legal Entity Identifiers (LEI) records.

The new ‘linking’ initiative will add a URL to LEI records of companies registered with the Netherlands Chamber of Commerce. This is

said to help provide direct access to registry data and aims to streamline due diligence and transparency with global transactions.

This will also increase global recognition and identifiability for local business in the Netherlands.

Alexandre Kech, CEO of GLEIF, comments: “By simplifying access to authoritative information about businesses in the Netherlands, our collaboration with KVK is promoting increased trust and transparency across the broader economy.”

Director of registers at KVK, Cindy Lourens, adds: “Any business registered in the Netherlands can now use their LEI as a 'global passport' to help facilitate cross-border payments, transactions and trade, with the confidence that their organisation is instantly discoverable.”

Securities lending revenue up 8% YoY for November

Securities lending revenues reached US$953 million in November, marking an 8 per cent increase compared to the previous year, S&P Global Market Intelligence has reported.

Equity markets remained stable year-over-year (YoY) during the month, with Americas equities rising 1 per cent to US$333 million, EMEA equities falling 3 per cent to US$65 million, and Asian equity revenues increasing 2 per cent to US$172 million.

According to the multi-asset class and real-time data provider, the growth in market revenues was primarily driven by ETFs, which saw a rise of 53 per cent YoY, and government bonds, which grew by 26 per cent. Corporate bond revenues also showed strong performance, increasing by 9 per cent YoY to US$87 million.

Matt Chessum, director of securities finance at S&P Global Market Intelligence, comments: “As anticipated, with the US election taking place at the beginning of the month, ETFs thrived as thematic trades related to the incoming administration unfolded.

“Government bonds remained a bright spot amid rising uncertainty about future interest rate movements, while corporate bonds are poised for a standout year following another month of strong revenues.”

He explains that although revenues for 2024 began lower YoY, they have shown a strong recovery in the final quarter.

Year-to-date, securities lending activities have generated a total of US$10.76 billion in 2024.

Kaizen partners with RegGenome on Single Rulebook

Kaizen has partnered with RegGenome to expand the coverage and content of its platform for searching and navigating global regulation using AI.

To support the digitisation of regulation, both parties will work together to provide fast and efficient access to global regulatory rules, jurisdictions, and taxonomies on the Single Rulebook platform.

Chris Dingley, CEO of Single Rulebook, says: “Working with RegGenome’s AI solution for regulatory data and information means that we will be able to expand the Single Rulebook platform and content rapidly for our clients, continuing and enhancing our efforts to support them with the burden of managing global regulation.”

The Single Rulebook platform currently allows financial firms to manage regulatory change with functions like rule maps, labels, and annotations, which can be pinned to regulatory rules and shared across global organisations.

Dingley explains that in early 2025, the platform’s clients will be able to access regulatory content covering all major global financial markets, including the coverage of US federal regulators and agencies, European national law, and global G20 members.

In addition to core financial services regulations, Single Rulebook users will also be able to investigate emerging compliance requirements for cryptocurrency, cyber security, and digital operational resilience, he adds.

Mark Johnston, CEO of RegGenome, comments: “By combining our extensive regulatory content with Single Rulebook's advanced search and analytics capabilities, we're enabling financial institutions to better navigate the complex regulatory landscape.”

RegGenome processes global regulation using AI to transform what is human-readable into machine-readable and machine-consumable data.

It is part of the Regulatory Genome Project (RGP), a public-private initiative between the University of Cambridge, Judge Business School, and RegGenome, which aims to build and review a set of open-access regulatory information structures — known as the Cambridge Regulatory Genome (CRG) — and make available a global repository of aggregated, structured regulatory data.

Building partnerships: Increasing trust and optimal outcomes

eSecLending's Brooke Gillman, Peter Bassler, and Jim Moroney pull back the curtain on the firm's journey over the past 25 years, how prospects become clients, and partnering with borrowers to bring solutions to market. Carmella Haswell reports

Entering the industry as an asset management organisation, and going on to have launched a new way to approach securities lending in partnership with a large institutional investor, eSecLending has transformed over the last 25 years.

As with most startup businesses, the firm began from zero, but today it holds north of US$1 trillion in lendable, with approximately US$150 billion in on-loan balances.

While the company still manages individual, segregated, and unique programmes built around specific client goals, one of the key aspects that the team at eSecLending is trying to manage going forward is controlling the company's growth.

As Peter Bassler, managing director, head of business development, says: "We don't want just any client. We are very strategic, we pass on more business than we go after, and so we're looking for the right relationships and trying to service a certain group of beneficial owners that really care about securities finance and want to be innovative."

Founded in 2000 as an alternative to traditional custodial and other third-party pooled lending models, the firm is partnering with borrowers, navigating the complex and unpredictable regulatory landscape, as well as striving for transparency with clients.

Following the market

As a pure startup business, the firm gained the California Public Employees' Retirement System (CalPERS) as a large founding client, a relationship that continues today. While the pension fund was the firm's core public fund, eSecLending now has five of the top six US public pension plans as clients.

Having been with the company for 16 years, Bassler indicates: "Our initial focus was on the lending side, auctions, and exclusives. Since then, we built out the cash management business and incorporated indemnified repo, which has been an extremely important tool for us. And we have become more creative with borrower connectivity, directly with clients, given our individual segregated programme structure."

As the new kid on the block (comparatively), Jim Moroney, managing director, head of global equities and corporate bond trading, says the firm has followed the market in terms of securities lending, during his eight-year tenure.

He explains: "We have onboarded several clients in the last three to four years, all fitting the same DNA that we have historically serviced. Our priorities have remained the same, it is client focused at eSecLending, which is unique compared to other programmes."

On the other hand, Brooke Gillman, managing director, global head of Client Relationship Management, has been with eSecLending since it was founded nearly 25 years ago. She explains that the firm's consultative approach with clients increases trust and leads to more optimal outcomes.

"We often say at eSec: 'We manage *your* programme, while our competitors think of it as the client joining *their* programme.' That's a big difference in mindset. And that absolutely remains the case today," she insists.

While the business is facing a lot of growth, in terms of its priorities and approach, the fundamentals remain the same. Gillman adds: "That is what made the business successful over the years. We are client-centric all the time."

A turning point

A turning point in eSecLending's journey was its leap from a lending agent, which provided auctions and exclusives, to a lending agent with a full solution.

From the beginning, eSecLending has taken a different approach from other service providers in the industry, Gillman states. From day one, every client programme has been separately managed, and lent as an individual account. The non-pooled approach allows the firm to provide flexible solutions, enabling the firm to be nimbler in addressing borrower demand changes.

To manage pricing inefficiencies in the market, eSecLending (known to counterparts as an auction house) would utilise the blind auction process on a competitive, blind bid basis. Auction is a way for the firm to obtain pricing information from the market, and to make informed decisions on how best to trade assets and extract premiums.

As part of the company's evolution, the team realised that clients were looking for a full solution — leading the firm to develop different components of securities lending in the early years of its expansion. This involved forming full securities lending agent capabilities to support the entirety of a loan lifecycle from the point of an auction to trade decisions, to back office support and the ongoing risk and operational oversight.

While exclusives remain an important component of the business overall, the firm has a significant business profile in the more traditionalist, daily traded discretionary lending market.

During its journey, eSecLending has come across a number of pivotal moments, which has led the firm to where it is today. One pivotal moment in particular, includes the firm's move to hold its own conferences for clients.

In Bassler's eyes, clients are the firm's best advocates, and so by allowing them to get together and discuss among themselves, it led to clients wanting to trade with one another and for more connectivity in the market.

Bassler adds: "In our business, this is a pivotal moment for us because clients want to transact with each other, and we support them because we innovate around where our clients want to go. Many of our competitors create products and try to build businesses around them, whereas we are looking to evolve with our clients."

Making a connection

Engagement with clients, prospects, and counterparts is key for eSecLending. Here, connection and transparency are at the core of maintaining these relationships.

Gillman explains: "We are overly transparent with clients, and therefore our clients have a much greater view of how their securities lending programme functions, operates, performs, what constraints it might have, and what opportunities exist."

Channels of communication for the firm are explored through podcasts (eSecLending Insights), monthly forums known as eSec Huddle, and client conferences, to name a few.

In addition, eSecLending offers an on-site client team member for clients. According to Gillman, this provides "the ultimate transparency" in the sense that when clients make use of this option, an eSecLending employee is placed in their office and becomes part of the client's team.

Gillman highlights: "Our on-site client person is a resource for them that can

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Brooke Gillman
Managing director, global head of Client Relationship Management
eSecLending

help react, respond, communicate, and engage on issues or opportunities throughout the day. Over time, there grows a level of partnership and trust because of the transparency that it provides. Clients see us as being on their side, and importantly, they do not see any conflict of interests with us."

In terms of prospects, Bassler says the firm's approach is long-term, relationship driven, and about adding value, education, and developing that rapport and understanding of what the firm does and how it can benefit them.

Importantly, eSecLending works to treat prospects as a client, even during the sales cycle. It is all about "waiting for a window of opportunity" where eSecLending can compete for their business — several clients which the company has "won" this year have been prospects for decades.

Speaking to Securities Finance Times, Bassler admits: "We pull back the curtain on everything we do and there isn't just one person that prospects face off with across our organisation. In a lot of firms, there is one person that can be a gatekeeper, but at our company, all our senior level people know the clients, and I think that's interesting.

"We also share things, like credit reports and risk analysis, that sometimes the big banks are leery of. We also share our full indemnification policy document — we indemnify through an insurance-backed approach. People expect more transparency, and when we give them more transparency, they feel more comfortable, and they feel much more like it's a partnership. We don't want to be a vendor; we want to be a partner."

However, maintaining a certain level of transparency has its challenges. According to Moroney, any number of hurdles can come from being fully transparent with counterparts and clients at the same time, and connecting clients and counterparts can at times create these hurdles.

A scope for change

The global financial crisis brought on a wave of financial regulation, subjecting the industry to "massive changes", something that looks set to continue. Gillman predicts that there is more change to come with the implementation of Basel III Endgame across jurisdictions.

As global systemically important banks (G-SIBs) face greater regulatory constraints and scrutiny by financial regulators, Gillman understands

"The reason we work on solutioning for a counterpart isn't because we treat them like clients and we want to make them happy, it's because we recognise that if somebody else comes up with that solution, that could be detrimental to our client's ability to extract value."

Jim Moroney
Managing director, head of global equities and corporate bond trading
eSecLending

that bank counterparts and agents in the market have seen "significant increases" to their cost base around securities financing and regulation in the past 10-15 years.

Moroney believes there is "no magic bullet" to cure capital constraints and requirements or financing needs of the borrowers. eSecLending is currently working with various counterparts on central counterparty (CCP) solutions, as well as working with parties on borrower lien solutions, or otherwise known as asset segregation. In addition, the firm has a focus on unique trades, which could be multiple-leg trades, inclusive of repo and swap.

"Those solutions help to solve balance sheet issues and for capital issues such as risk-weighted assets (RWA)," Moroney confirms. "Because we lend on a disclosed basis, our counterparts look to our specific clients to help provide answers to their regulatory needs. And so, we truly act as an agent trying to facilitate business for our clients at a transactional level."

Over time, Gillman hopes to work with clients on potential credit rating solutions to the extent that it helps a borrower — not all borrowers will benefit from that. The eSecLending team say that RWA constraints are real for its borrowing counterparty base. "Our goal is for all our clients to be a lender of first choice to our borrowing base. To do that, we are trying to put in place as many solutions as possible," Gillman confirms.

In terms of eSecLending's positioning in the current regulatory landscape, Gillman says the firm stands apart from its agent bank competitors. eSecLending is a non-Depository Trust Company, regulated under the US Office of the Comptroller of the Currency (OCC).

While its competitors are facing more constraints, Gillman notes that eSecLending is supporting more clients and greater lendable assets because of these regulatory changes. She says: "We've seen more of a shift because banks are less interested to do certain types of trades due to regulatory constraints and costs. We've also seen our clients shift to wanting to trade more and more with one another via peer-to-peer opportunities."

In addition, Gillman mentions the firm has not seen the same fundamental cost changes to its business model as large banks have.

"In our business, this is a pivotal moment for us because clients want to transact with each other, and we support them because we innovate around where our clients want to go."

Peter Bassler
Managing director, head of business development
eSecLending

For context, eSecLending sought out an external indemnification policy in the early days of its business. This insurance policy “has a known cost basis” to provide indemnification insurance to clients, and that has remained relatively consistent for eSecLending over its near 25-year history.

“The indemnification is costing our competitors a lot of money, and clients want to do lower spread trades, whether that's just general collateral lending, or for financing purposes,” Bassler adds. “They are coming to us because of some of these regulatory challenges. So that is a big tailwind for us as far as our new business environment.”

For Moroney, the eSecLending model, how the firm is legally structured, allows it to use the firm’s indemnification as opposed to using its balance sheet — meaning the firm is not constrained on an RWA basis.

From a counterpart perspective, Moroney says “we're in an ecosystem”. That ecosystem is X billions of borrows, and the borrowers will allocate business to people who have solutions for them. He continues: “The reason we work on solutioning for a counterpart isn't because we treat them like clients and we want to make them happy, it's because we recognise that if somebody else comes up with that solution, that could be detrimental to our client's ability to extract value from lending securities on a go forward basis.

“We try to be forward-thinking in terms of where the industry is. We’d like to be a leader in that space, and we think it'll benefit our clients.”

Forward focus

While the crux of this discussion with the eSecLending team has revolved around discretionary traditional trading, structuring trades, and structuring solutions, it appears that this focus may not be the case in five years time.

To look back 5 or 10 years previous, would indicate a fixation on the auction process and auctioning in markets that are suited well to exclusives. Moroney predicts that in four or five years, the focus will return to exclusives, especially as the industry embarks upon additional new markets opening.

He explores: “In Asia, there's a handful of short sale bans — as those bans are lifted, there's various solutions that might require exclusives, and might be best suited, from our client's perspective, as an exclusive.

“I would expect the pendulum to shift back towards the solutioning via exclusives in the next five years, maybe outside of the US. New markets are coming, such as Saudi Arabia, and there's a handful behind it that probably suit an exclusive more so than traditional trading.”

In his review, Bassler notes that central counterparties have been a big promise for the industry that has not “lived up to the hype” yet. However, the next few years may see some solutioning in this area.

“We're certainly paying close attention to it and have a project in the pipeline. Many of our competitors look at that as a threat to their business,” Bassler explains. “We look at it as another distribution channel. That piece is something that will continue to evolve over the next five years in a more comprehensive and real way than it has in the last five years.”

Looking forward, Gillman suggests that over the next quarter century, beneficial owners will play a more direct and active role in terms of market participants and engagement — something eSecLending is excited about.

“Allowing the beneficial owners in this marketplace to have a greater voice in the transactions, greater control over what they are doing, and a greater direction over where things go, has been core to our business since we started, and we are finally seeing this trend evolving in the industry,” Gillman explains.

While the banks will still drive much of what is needed, Gillman indicates that the industry will continue to see beneficial owners increasingly engage in and influence the approach that is taken, the solutions that are created, and how the market evolves. Technology and regulatory change are set to continue to play a massive role alongside that.

Though it is difficult to anticipate how the industry will look in five years time, Bassler promises that eSecLending will remain client centric, and “will always solve for where the clients are going, and not create products from our perspective”.

The Middle East Securities Finance panel

In the third instalment of a three-part series, industry experts discuss the Middle East's key SBL models, the coexistence between conventional and Islamic finance, as well as the importance of responsible growth

Moderator

Gabriele Frediani, Head of Development and Market Infrastructure Coverage, Europe
Liquidity & Sustainability Facility

Panellists

Sarah Alothman, Managing Director, Head of Securities Services, **Riyad Capital**

Dimitri Arlando, Director, EMEA Sales, **EquiLend**

Darren Crowther, General Manager, Securities Finance and Collateral Management, **Broadridge**

Jalal Faruki, Head of Securities Services & Custody, **SNB Capital**

Elie Geagea, Head of Equity Derivatives Solutions EMEA, **HSBC**

Andrew Geggus, Global Head of Agency Securities Lending, **BNP Paribas**

Andrew Stephen, Executive Director, Buyside Trading Services, **J.P. Morgan**

Saudi Arabia is a spectacular example of 'where there's a will there's a way'. The region is growing and looks to continue its growth. Can you talk to me about the region's three SBL models?

Jalal Faruki: These are the models that you see active at different types of firms and service providers. The first one, or one that we usually see, is agency lending. It has the least amount of risk and balance sheet impact on participants, and it's a model that we see most active in developed markets. It's the model that we see our clients use when they lend their international assets.

Another model that we've seen, that has a place in Saudi and will continue to is a pooled principal model. This is a model that we use — we're facing multiple qualified clients as principal, we're borrowing shares and then onward lending to another counterparty or client. That model allows us to face multiple counterparties through SNB Capital. They're generally comfortable with our balance sheet and our risk, and it allows people who maybe wouldn't have access to those counterparties directly, to enter into those transactions through us.

The last model is what we started seeing initially when the stock loan regulations came out, which is purely bilateral trades. The challenge with bilateral trades is if one side wants to return a call back, it's hard to get those securities reused or to substitute that loan out. Whereas in agency lending and pooled principal, even if the lender wants those shares back, we can substitute that out with another lender, potentially in the queue or in the pool. It therefore gives borrowers a more stable inventory and supply.

From a practical perspective, we think all of these models need to exist in Saudi Arabia. When you look at demographics, Saudi is similar to some of the large Asian markets, where you have 60, 70, or 80 per cent ownership and activity from retail and high net worth investors — it used to be 90 per cent. That investor isn't going to be able to go into the institutional agency lending programmes. They need a full principal programme to be able to work. We think all of those models are going to be active in different sets of lenders and different sets of borrowers in the Saudi market.

Andrew Stephen: We talked earlier about client and investor education when talking to a market which is relatively unfamiliar with the practice, the agency model carries the least risk. The benefits of outsourcing to an agent lender, namely the rules and limits that guardrail the programme, make it easier to enter into the market.

Since relocating from London to the region, I have started to receive messages from my bank telling me where to invest from an IPO perspective — this is not something you would see in the UK. We've seen demand for what we call the 'aggregator' model, where you have the broker, or the client's broker, and they almost act as the principal, but through agency structure. Essentially, they sit at the top and aggregate all of that retail flow, and then face off as the lender or the beneficial owner, and then make their assets available. We've had a lot of success with that model in Europe and in Asia.

The Gulf Cooperation Council (GCC) countries are primed for this model. There are retail brokers out there providing access to the stock market to their underlying retail clients. If we can tap in and see that as the beneficial owner, we can access a large part of the supply in the market, while facing off to only one client.

Faruki: The challenge in Saudi is that, for me to enter into a securities lending trade with a counterparty, if I'm not a qualified investor, I have to have a lending agent. We couldn't act as lending agent and principal at the same time, so we have to only face lenders who are qualified — which is a relatively low asset test, so around SAR 5 million (US$1.3 million). A lot of clients meet that requirement, and that's what's allowing us to tap into a different liquidity pool than an agency model might ever be able to attract.

Dimitri Arlando: From a global perspective, we're seeing fully paid lending — or client asset lending as EquiLend calls it — as a huge growth market for us. It started with the likes of Robinhood in the US, and now we are seeing growth in lending retail held assets increase in Europe and Asia as well. The number of conversations I've had with people in this region about fully paid lending is growing each week.

Technology has a huge part to play in that, because the challenge with mobilising that supply, where retail brokers could have 1000s or millions of underlying accounts, is trying to aggregate all of those positions up into something that a broker-dealer is going to be happy to borrow from and then distributing the income and corporate actions back down to the retail clients. The technology exists for that to happen today.

Darren Crowther: We're seeing the same types of requests for fully paid lending. The complexity comes in from the extra layer of allocation, feed distribution, and collateral allocation that you need to take to underlying retail investors, with small amounts of shares in each one. Depending on where you're based in the world, there may be a requirement, in some cases, to report to the regulator about those trades, something that was never there three or four years ago. It takes a real technology shift to be able to do that, but the benefit that the firms get shows in the additional revenue. That upfront investment in the technology allows the additional revenue to come in.

Stephen: It's well known that the securities lending market, for a very long time, has been significantly oversupplied in terms of lendable versus on-loan. It's these sorts of things that give you a new source of supply, allowing you to drive that on-loan balance up, without necessarily increasing the lendable.

Arlando: Those pools of assets are often more in demand from the broker-dealer community, because they are quite unique. We see it in Scandinavia as well, where some of these lenders in Scandinavia, who have access to domestic owned supply, they're immediately in demand from the broker-dealer community, because what they're bringing to the table is very different from what they're currently seeing in supply terms.

Faruki: The next thing you have to look at is the demand. It's great that we can capture all of the supply, but if there isn't enough demand, and there aren't products that need those shares as a borrower, you're not going to have enough to have a fair and balanced market.

While they might look great on the surface, market makers are the worst clients for stock loan, because they take the stock for a day or two, and they return it. From a lender's perspective, where it's a new market, and you're trying to get them active, they don't want to lend their shares out for a day or two, that's not going to generate anything meaningful for them.

Then you have to start looking and ask yourself: who are the kinds of counterparties that would be good borrowers, that would have good utilisation, that would be paying good rates. And then you start looking at long-short and at other strategies that have those kinds of horizons. In the region, there's a huge amount of funds now that are set up with regional bases. They're not just trading globally, they're coming to Saudi, they're coming to other regional markets, and seeing how they can be a part of the capital market activity. That includes initial public offerings (IPOs), stock loan, and even strategies that we don't see elsewhere, like corporate action arbitrage, and merger arbitrage — we've started seeing demand to borrow that didn't exist two years ago.

Elie Geagea: Indeed demand is picking up. The demand pick-up is driven by new asset managers coming to the region and by the new economic environment. We are in an environment where volatility is observed in the equity market, the equity market is no longer a one-direction market that has been a bullish market over a decade. Volatility is here, so investors and asset managers are looking for hedging solutions. And for hedging solutions, you need an efficient SBL market.

Inflation is here, asset managers are looking more and more for yield pickup solutions and share lending is one of them. You need an efficient SBL market. The low rate era is over. Three or four years ago, asset managers had access to cash in a free and abundant way. It's no longer the case, we are back to a relatively high rate environment. Funding is costly now, so investors are looking for a cheaper and optimised financing solution. This can be achieved through derivative instruments, which can not be implemented without an operational SBL framework. Given the above, the borrow need is picking up, hence the need for diversified and stable supply.

Sarah Alothman: Speaking in general about the growth here in Saudi — capital markets activities have grown exponentially in the recent five years, and this is due to the changes that are happening in the market. This includes the introduction of the qualified foreign investors, the independent custody model, the listing of the IPOs, post-trade enhancements, the introduction of CCPs and CSDs. This has also helped position the Saudi exchange, or Tadawul, to be the 10th largest global exchange by market capitalisation. This has encouraged strong demand and growth, both from the market and the investor side.

Andrew Geggus: That has a knock-on effect as well. All of those points have then led more investors on the buy side to start taking positions in the market. We hear from all of our borrowers that they're having conversations with their clients about access to the region, and, particularly, access to Saudi Arabia. While we said that we took a leap of faith to try and go live in lending in Saudi Arabia, it was only because we are getting a huge knock on the door from all of our borrowers, and they're getting the same conversation from their clients.

Crowther: We've had to work hard with our clients on understanding the cost of getting into the market to begin with. The build and implement stage versus the run and operate stage, are quite different. There's an upfront build integration cost to execute trade number one. There is then an ongoing run cost — going back to Andrew's point around operations: how do you manage the book? How do you manage the risk? Do you do it out of the global team? Do you have a local team here on the ground? Is there an investment to be made or not?

All of that drives back to the quality of the assets that are available for lending and the utilisation of those. We've worked with a number of clients to look at their business cases and quite a lot of the work that we do at the start of any engagement with a client, is understanding what their operating model is going to be, how they're going to service things, and helping them to cost out what that would look like technology wise.

What are the dangers here? What does this community need to be aware of to make sure that this journey into the Middle East continues as a success story?

Arlando: Firms need to make sure that whatever regulations we're putting in place and whatever product design we're putting in place is consistent, and essentially leads to efficiency in the market. That efficiency in the market is key, because borrowers are more likely to pay up when it's more efficient to them. So globally, whichever market you're looking at, if there's no borrow demand, there's no market.

The one thing that borrowers are really interested in is analytics and data around their trades, trading activity, and their counterparties. They are more likely to trade and engage with counterparties that are efficient to them, because they're under cost constraints as well. It's important to ensure that, yes, we're growing this market, but when we're looking at how to grow it and taking it to the next step and beyond — which we all agree is going to happen here — that point of efficiency and doing things with best practice in mind, is important.

What is the outlook for the region? Is Saudi full steam ahead and will the other Middle Eastern markets follow? Are we looking at a future pan-GCC market?

Faruki: Market standardisation is a key point. If you look at agreements, operating models, and even cutoffs for required values (RQVs) — these are all critical things. We joined the International Securities Lending Association (ISLA) a couple years ago to learn more about securities finance and how it works globally. We took a lot of positive feedback from the global participants and tried to say: there's clearly market standards and practices that they're willing to share with us and to help us learn and develop our own capabilities in our own market. We have to take the same approach now for market participants, we have to be willing to share information, to share ideas on how we do things, and to try to come to a common standard and practice.

At the end of the day, if I have my own ecosystem, and another custodian has theirs, and the international banks have a third one, it's going to be very hard to do things between different custodians or counterparties. It's not going to allow the market to be efficient. There will be different pricing, depending on how you're documented, depending on how you're set up. Market standardisation is the key thing, and we have to put our own business interests aside and ask: how do we do this in a way that benefits everybody and grows the market?

Geagea: Before covering the SBL outlook part, I would like to go back to the starting point. In 2013-14, there was a will from several countries in the region to increase liquidity and bring foreign investments into GCC markets. Many GCC countries started discussing and preparing for index inclusion. In 2018-19, many GCC countries were included to the emerging and global indices. The index inclusion brought foreign investments and increased liquidity on the secondary market. On the primary side, IPOs in the region were very active and increased local and foreign interest in investing into GCC markets. So in terms of cash equity, work has been done on both the secondary and the primary side.

With increased liquidity and higher foreign investments, there was a growing need to build an efficient capital market. Once you bring liquidity and capacity, the second step is to build efficiency. For an efficient capital market, you need to have three pillars, which are: liquidity, an operational derivative market, and an operational SBL market. For any capital market growth plan, whether in Saudi or other GCC countries, to have an efficient capital market, you need those three pillars

HSBC, as a well-established multinational bank in the region, has started working on those pillars since the early beginning and we are fully confident that the growth story will continue, but growth needs to be done in a smooth and responsible way.

Stephen: Given the potential, across various sectors, of the GCC, I think it would be unwise to bet against the region. In the realm of securities finance and lending, it is crucial for market practitioners, global custodians, and agent lenders, to focus on developing market depth. There's a risk that we assume Saudi is done, move onto the likes of the UAE, Qatar, and Kuwait, and spread ourselves too thin.

Instead, we should double-down on Saudi, for example, and analyse all the different opportunities and the different mechanisms and services that we can put in place to help our clients. As we build up the lending side, we want to build out the ability to take Saudi domestic equities, for example, as collateral.

Foreign banks will face limitations in their business activities if they cannot reuse their assets — it is our responsibility to develop solutions that complete the system in Saudi Arabia, before progressing to the other markets. While it is, of course, important to stay informed on the developments in other GCC countries, the priority should first and foremost be Saudi Arabia.

Crowther: On the banking side, it makes perfect sense, because you want to make sure you've got something solid, a foundation for that business going forward. Because of the nature of all of the other countries trying to keep pace or catch up, from a technology perspective, we will have to service all of the regions, no matter where they are in their securities finance journey.

The key success is interoperability. Andrew has mentioned it a couple of times and it's spot on — whether that's at the pre-trade level or at the data vendor level, or even the CSD level, providing all of those capabilities is key to the evolution. If firms successfully bring on more clients, if they can't do them at volume because of constraints around technology, the whole thing falls apart.

So as a service provider, we need to be thinking ahead to not just next week's revenue, but one year, two years, and three years ahead to make sure all of those things are available, and then the market will be a bit more fluid.

Alothman: Saudi Arabia has done more work and input effort into the region. And, eventually, there have been more inflows into the market. The exchange is also catching up with the global market capitalisation. I'm optimistic, so I would say that there is more exponential growth within the next five years in respect to SBL. As Elie mentioned, liquidity is a key. This has been ticked and has been picking up also in the market.

There is an opportunity, there is growth coming, and there have been so many tremendous changes in the market from the inclusion of MSCI back in June 2018 to look at where we are today, qualified foreign investors holding is US$88 billion as of August 2024. Introducing new products to the market will attract more investors, and so we will see more demand in the market.

In regard to the coexistence between conventional and Islamic finance, where are we today?

Geagea: A big percentage of assets, if not the biggest, is held by Islamic financial institutions. If we look at fixed income repo, the Islamic offering has massively picked up in the recent three years. I don't see that SBL will be an exception. As for any OTC transaction, an Islamic SBL agreement needs to be done between two counterparties, and any Sharia discussion needs to be validated by the two counterparties separately.

The key element in the Islamic framework is standardisation. In the Islamic OTC derivatives world, we witnessed a shift toward centralised Islamic guidance and practices of the operation model of any Islamic OTC transaction. Islamic documentations and negotiation refers to the Tahawwut Master Agreement (TMA), a well-known reference and acknowledged across the region. We definitely need something similar in the Islamic SBL world. Standardisation is even a request from international organisations like the ISLA. ISLA is encouraging stakeholders in the Middle East to have a common Islamic regulation and practices, which can be acknowledged by local participants.

Faruki: From what we see right now in supply and demand, it's maybe not important from a borrower side, where lots of the borrowers are international. But from the supply side it's critical that this gets developed, because the majority of clients that we deal with are looking at transacting in a Sharia compliant manner. We've gotten clear feedback that there's ways to do that. But it's just getting the standard documentation, the standard terms, standard way that those trades are processed, to make sure that they are complying with those rules and with that guidance.

Geggus: It's a consideration that we have to take on board when we're reviewing the opportunity of the region as a whole. This is a big element of transacting within the region. The work ISLA is doing is fantastic, and trade bodies like that can really help the market to get a consensus view into certain items in the region. Hopefully we will get some sort of standardisation around that point.

Crowther: From my perspective, over the last couple of years, we've worked with a client in Saudi to extend the capability of the platform to allow them to trade on a Sunday — which was new for us. Likewise, Bursa Malaysia put in place a strong template around how Islamic securities finance will work for them, which drove system changes and increased system capabilities to match. Any other regulation or standardisation that comes in, in any place, you follow that same suit.

Faruki: It goes back to the question of, is there one way of doing securities lending that works for every single client and every counterparty? And I think the answer is no. You're going to have these different pockets of liquidity and supply. The challenge now is that it's such a new market, we still can't identify what those will look like and what they will be. Just as we're saying clients in Saudi or other markets in the region are interested in lending securities, I'm sure there's maybe not as many, but there's a good deal of clients that are also interested in borrowing securities, and taking certain positions that they weren't able to take previously.

These are all parts of the market developing, and you'll have those different pockets of maybe Sharia compliant only, and ones that face international borrowers. There's also a lot of other points that will come up, like withholding tax, dividend treatment, voting, ect. All are going to create different models and different approaches, but as long as you have some agreement and standardisation, that's what will help to mitigate those risks disrupting the market.

Crowther: That's absolutely no different from any region’s client requirements. Whether it's a UK-based organisation, or a scandic organisation, they've all got their own rules and regulations. Islamic securities finance is just another client set that we all have to deal with.

Geggus: It comes back to the responsible growth point that was made earlier — we want this to grow, we want it to be a success, but it has to be done in a responsible way that takes into account the views of the regulators and the trade bodies, and that we work as a collaborative to grow this economy and build the market, rather than try and go alone and and cause issues. So it's all about responsible growth.

Click here to view the video online

Accelerating change along the Collateral Highway

In a transformative year for the world's leading financial market infrastructure groups, Securities Finance Times sits down with Marije Verhelst, head of product strategy and product development, Collateral Management and Securities Lending at Euroclear, to discuss how the company is addressing the market trends

The shift from quantitative easing to quantitative tightening has fundamentally changed market dynamics in the financing world. How has this affected your business and your strategy?

We have seen substantial growth in particular in our triparty repo activity. Business volumes are in fact up 17 per cent year-on-year (YoY) and this applies across all main business lines — triparty repo, securities lending and derivatives. We are very pleased with this.

The market is indeed changing very quickly, driven by increased costs of doing business, for example capital and risk-weighted assets (RWA), regulatory reforms, changing market dynamics, and geopolitical influences. So, we needed to adapt as well. In response we are undergoing a major transformation of our collateral services and client facing teams. And we are investing in every aspect of the collateral business and matching our ambitions with resources.

Our vision is to set the industry benchmark in client experience, service excellence, innovation and resilience for the collateral ecosystem. To achieve this, we have launched a new multi-year investment plan designed to transform the Collateral Highway solution, working closely alongside our clients to ensure the plan continues to address their current and future needs.

One of the most critical needs is time-to-trade. What are you doing on this front?

We are in the process of building a new collaborative digital platform. This will deliver a touchless end-to-end solution for signing collateral agreements and electronic forms, plus drafting, negotiating and implementing collateral schedules.

We have listened to client feedback. What they want are easier, better, faster, more intuitive workflows that are accessible from any part of their organisation. Implementation and amendments of collateral schedules will also be fully straight-through processing (STP) and highly scalable.

This is a three-year project and we realise that will feel like a long timeframe when the market is changing so fast. So, we are rolling out upgrades to our current EasyWay Collateral Contract management module as well.

These latest enhancements, among others, included the ability to implement and amend triparty collateral schedules more quickly thanks to an improved digital signature workflow. Non-EasyWay counterparties can now sign digitally too.

Can you tell us how you are improving your collateral allocation services?

This is a big priority for us and we are continually enhancing our collateral allocation engine, AutoSelect. Dealers can now benefit from reduced cash fails rates as AutoSelect looks at pools of collateral, which have been reused in triparty, for example.

> “We also want to give collateral givers increased predictability and flexibility by allowing them to tailor Autoselect to their needs.”

Next, we will be lifting the limitations of what we call ‘three-way’ substitutions. This will enable AutoSelect to identify and execute complex optimisation scenarios. We expect this to eliminate cash fails due to sub-optimal allocation.

We also want to give collateral givers increased predictability and flexibility by allowing them to tailor Autoselect to their needs. This personalised approach will enable them to opt-in or out of specific AutoSelect functionalities. For instance, by choosing to engage in allocations in certain processing runs and to add substitutions in others.

The Collateral Highway mobilises a lot of data as well as collateral. How are you maximising this?

That is right, it does work with a lot of data. There is securities reference data, corporate actions data, securities balances data, settlement activity data, collateral profiles data, collateral allocations data, and more.

Increasingly, clients want to have access to this data and use it to run and build internal reports, perform eligibility checks, run simulations, or to feed into an optimiser. So as our third top priority, we are focusing on delivering fit for purpose collateral data in the form that clients need it, and through a variety of different channels such as EasyWay, API, and MFT.

We also intend to use this data to develop value-added services. For example, a new simulation tool replacing Triweb. This will allow dealers to check collateral eligibility for specific trades, taking into account applicable haircuts and concentration limits. Or they can test what-if scenarios by changing eligibility parameters or available positions.

“Optimal allocation can massively impact financial ratios, and ultimately P&L in a positive way. As a result, we are in the process of delivering a new generation of collateral optimisation services.”

Can you tell us a little about collateral optimisation?

Regulatory reforms have made it vitally important for dealers to achieve an optimal allocation at the end of the business day. Optimal allocation can massively impact financial ratios, and ultimately P&L in a positive way. As a result, we are in the process of delivering a new generation of collateral optimisation services.

First, we are improving our existing Self Select service, which directs the allocation of collateral across a client’s entire triparty book, with AutoSelect there in the background as a fallback. However, building an optimiser is not easy, and some clients prefer to focus on optimising the few specific trades that will give them the biggest savings rather than their full book. They can do it through our EasyWay portal. And this will be available in any Autoselect run of the day.

We have also made significant improvements to the way we process collateral optimisation swaps, which has substantially reduced credit usage.

This November, we extended the integration of our triparty collateral management platform with Pirum’s CollateralConnect service. Mutual clients can use their own or third-party optimisation algorithms to determine their optimal collateral allocation.

And of course, the most important project concerns the delivery of a Euroclear fully-fledged collateral optimisation service in association with collateral optimisation service provider, Transcend. This Euroclear service will combine, in real-time, client data with Euroclear data to achieve the best possible collateral allocations for trades in and outside of Euroclear.

Do you believe that financial market infrastructure firms have a leading role to play in building out digital assets infrastructure?

We do, and we are witnessing more and more industry collaboration, which is very positive. One good example is our partnership with Digital Assets, the World Gold Council, and a broad industry group of some 27 market participants to complete a successful trial tokenising gilts, eurobonds and gold for use as collateral across a series of trades. It also helped to show the value that digitalisation can bring to immobile real-world assets.

We are working with Digital Assets on other use cases in the area of collateral exchanges on a digital platform. We are particularly keen to bring additional efficiency to the substantial pool of collateral assets that we have in custody, without requiring our clients to take on an additional custodian.

There is increasing focus on fast-growing markets in the Middle East and Asia. How are you serving them?

Having the broadest possible range of eligible collateral assets is of critical importance to our clients and to us. Take South Korea as one example.

In June, Korean treasury bonds (KTBs) became Euroclearable and eligible for triparty. Since then, we have continued to improve the service. Working with Korean Authorities, regulatory requirements were further relaxed in August to allow simplified account set-up for custodians.

In September, we lifted restrictions on Korean won to allow internal settlement. In November, input deadlines for delivery-versus-payment (DVP) external settlement were further extended, and in December, triparty transactions in Korean won go live.

We are continuously working with issuers and market authorities to help develop local currency markets, make them Euroclearable and expand the range of eligible collateral assets.

One of the biggest highlights of 2024 has been T+1. There were concerns that it might create operational difficulties and there would be timing mismatches for European entities with US dollar assets. Were these concerns valid, or has the market taken everything in its stride?

The US move to T+1 was completed successfully by the market and Euroclear Bank at the end of May. We saw the majority of cash market trades in US fixed income move to a T+1 settlement cycle without any drop in settlement efficiency.

The T+1 focus now moves to Europe and we have been very engaged with both the UK and the EU. In the UK, we are sponsoring the Andrew Douglas-led independent technical task force, which has done great work defining market recommendations for T+1.

T+1 presents different challenges in Europe, especially affecting financing markets and their adaptation to a shorter cycle. We aim to support the market's transition by focusing on infrastructure needs and our clients' requirements.

One of your other major UK-based projects involves the replacement of the Crest settlement and custody platform. Tell us more.

It is a big project and will represent a massive transformation for the gilt market. It also presents us with an opportunity to replace the current DBV service with a fully-fledged triparty service, giving clients more flexibility, for example in defining collateral baskets, use of standard communication channels, etc.

You have also launched a bilateral repo service for the US Treasury market, can you tell us about that?

Yes it is live. We believe it will greatly help the buy side, by providing a low-touch collateral solution for repo that is integrated with their existing trading platforms and custodians. To make it short, it is offering triparty-like functionalities for trades settling over the FedWire system.

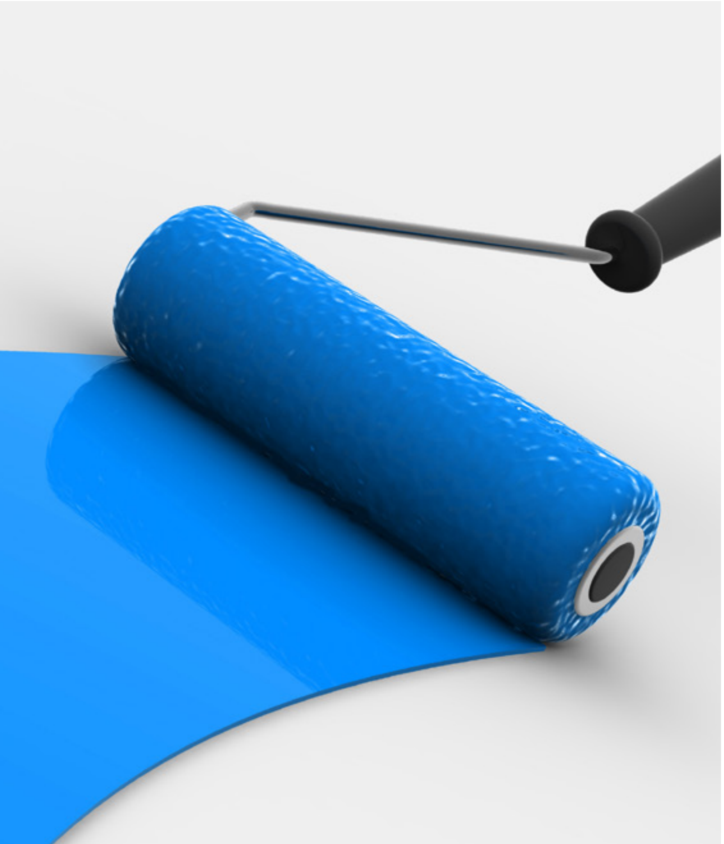
“The Settlement Discipline Regime and the shift to shorter settlement cycles has firmly focussed the industry’s attention on settlement efficiency and our Autoborrow service is a key contributor as the last resort tool for fail curing.”

We are also piloting a guaranteed repo service with Bloomberg and Sunthay in association with a group of committed market participants and are looking at a third service for the bilateral repo market in Europe.

What developments are you working on in securities lending?

In this sector we recently added term lending options to our GC Access service. We also reviewed the pricing of our Autoborrow service to reinforce the value it brings to borrowers.

The Settlement Discipline Regime and the shift to shorter settlement cycles has firmly focussed the industry’s attention on settlement efficiency and our Autoborrow service is a key contributor as the last resort tool for fail curing. It is available in our central securities depositories (CSDs) and very much a live service in Euroclear France and EUI.



A year of change: 2024 unwrapped

In a qualitative survey, Daniel Tison invites market participants to review the forces that have shaped securities finance over the past 12 months

What has been the strongest driver and the largest hindrance to the securities finance industry in 2024, and why?

2024 witnessed a return to some semblance of normality in the financial markets, marked by higher interest rates and the end of quantitative easing. The shift turned collateral scarcity into abundance, but the surplus liquidity in the market often remains trapped and inaccessible, creating challenges. While costs of doing business kept on growing, difficulties in accessing banks' balance sheets and risk-weighted assets (RWA) constraints persisted despite some improvements, especially during times of financial stress or economic downturns.

Olivier Grimonpont, Managing Director of Product Management, Market Liquidity, Euroclear

In 2024, the securities finance industry was driven by the shift from collateral scarcity to abundance, the yield curve movement, and the European Central Bank's (ECB's) rate cuts. These factors increased funding needs and boosted GC Pooling, especially in term business. The successful launch of the European Commission's repo facility further highlighted growth in cleared repo markets.

The main hindrance was in special repo, the 'cheapening' of collateral, with German Bunds trading at general collateral (GC) levels above euro short-term rate (€STR) and GC Pooling overnight rates around the deposit facility rate. Additionally, mixed views on the ECB's reduced spread between the main refinancing operations (MRO) rate and the Deposit Facility Rate added to the uncertainty.

Frank Gast, Member of the Management Board at Eurex Repo and Global Head of Repo Sales, Eurex

Overall client engagement has been a major business driver in 2024 for Fidelity Agency Lending and the securities finance industry as a whole. We have seen a post-pandemic thaw from clients seeking to fine-tune their lending programmes and uncover ways to improve returns without unnecessary risk. This engagement has come in the form of inquiries about new markets, asset classes, and/or collateral types, adjusting programme parameters, as well as conducting full-blown request for proposals (RFPs) seeking new providers based on competitive advantages. These touchpoints have created new opportunities for lenders to deliver more value for clients even in a down revenue year for lending markets.

Relatedly, market activity itself, be it low volatility, limited initial public offering (IPO), or merger activity, was also a major hindrance to securities finance in 2024. The VIX was more than 25 per cent lower than its five-year average, reducing the demand for hedging and directional market bets through shorting securities. Additionally, IPO and merger activity remained near historic lows, impacting key revenue drivers for lending participants. The uncertainty around the US elections, interest rates, and geopolitical risk muted demand for both for the second half of 2024.

Justin Aldridge, Head of Fidelity Agency Lending, Fidelity Capital Markets

From the Saudi Arabian perspective, there has been significant growth in the value of securities on loan by three to four times throughout 2024, driven by awareness in the market of the benefits and opportunities offered through securities borrowing and lending. This growth was timely as multiple corporate action events took place during 2024, which highlighted the relatively high rates borrowers were willing to pay to inventory. That, in turn, drove more supply and participation from potential lenders to capture these opportunities.

On the other hand, due to the relatively new nature of this activity, a large proportion of local custodians and investment accounting systems are not enabled to reflect securities positions as on loan, which has hindered large institutional investors from entering the market. In addition, the lack of a clean netting opinion, as well as the various agreements used by different lending agents and counterparties, continues to be a significant hindrance to standardisation in Saudi Arabia.

Jalal T. Faruki, Head of Custody and Securities Services, SNB Capital

Funding trades were key drivers of growth in global securities lending markets this year. As central banks around the world diverged in their monetary policy, there was a general market skew because leverage and asset appreciation increased the need for high-quality liquid asset (HQLA) upgrades, particularly on term. This continued to present growth opportunities for clients.

To support this balanced growth, State Street continues to optimise its capital requirements to allow clients to maximise their returns. Industry challenges are exacerbated as we navigate a diverging regulatory landscape with Basel III Endgame. State Street, as well as other agents and borrowers, continue to evolve clearing, pledge, and indemnification solutions to ensure client activity can continue uninterrupted.

Further opportunities also stem from new markets such as the Middle East, and the increasing importance of retail client asset supply. Improved automation and platform diversification are necessary to support these market expansions. We continue to see the adoption of alternative trading solutions to support operational resiliency, including State Street's Venturi platform, among others.

Dr Dagmar Kamber Borens, Head of Global Markets for Continental Europe and Country Head for Switzerland, State Street

There have been a number of positive drivers for the securities finance industry in 2024. The increasing pace of adoption of electronification in the repo market has been significant, and we can see this with our growth in volumes in the dealer-to-dealer (D2D) and most notably dealer-to-client (D2C) space.

We have also seen an easing of the collateral scarcity that has plagued markets in recent years. As a result, market participants are exploring new opportunities in fixed income, such as corporate bonds and asset-backed securities.

This desire to automate more of the repo trading workflow and use alternative underlying assets leads to increased adoption of our D2C request-for-quote (RFQ) market — BrokerTec Quote. Our D2C market has seen accelerated growth in both nominal volumes and client adoption over the last 12 months, and we have a strong pipeline for 2025.

There has been an emphasis for the industry to have more than one execution venue that offers the full suite of securities financing transaction (SFT) products and functionalities as the market looks to diversify away from dependence on a single vendor to manage the full lifecycle events.

Sara Carter, Executive Director, Global Head of Repo, BrokerTec

Two key drivers of growth in 2024 have been the shift towards total return swaps (TRS) and the expansion of our securities borrowing and lending (SBL) activity. TRS gained traction by offering flexible financing and short coverage through our service. SBL activity has grown significantly, with our bespoke matching platform providing access to general collateral and hard-to-borrow (HTB) liquidity.

Throughout the year, platform activity was driven by existing clients deepening engagement and new clients returning — despite Q1 cyberattacks on traditional SBL technology. TRS lifecycle solutions evolved consistently, with balances rising 102 per cent, from US$233 billion on 1 January to US$470 billion by 28 November.

Looking ahead, the synergy between SBL and TRS will shape market strategies, with platforms such as Wematch.live offering unique liquidity and execution support.

Grant Davies, Head of Equity Sales for EMEA, Wematch.live

The securities finance industry is being propelled by several key factors. Digital transformation plays a critical role, as firms leverage process mining and optimisation tools to identify automation opportunities. Automation can provide a significant impact in reducing cost per trade in settlements. For reconciliations, the integration of data automation with legacy processes brings the potential to reduce investigation costs and close the loop by automatically submitting fixes after errors are detected.

To see widespread success of AI and data automation, strong orchestration layers, robust controls, and effective data management must be in place to improve automation and workflow capabilities.

Despite these advancements, the securities finance industry faces several challenges. Historically, re-engineering efforts for legacy systems have been prone to failure and cost overruns, posing significant hurdles. Meanwhile, manual processes and end-user computing (EUC), while capable of addressing urgent audit issues, often struggle to prove a return of investment. Many firms continue to struggle with disconnected legacy systems and manual processes, which lead to operational bottlenecks.

These obstacles come amid a new wave of regulations. Given T+1 in North America, settlement compliance has required additional headcount and resource redeployment globally, raising the cost per transaction. Firms looking to incorporate AI and automation must find the right balance between human and machine collaboration to address compliance, accuracy, and oversight concerns.

Paul Chambers, Solutions Manager, Capital Markets, Xceptor

We saw a return to liquidity and collateral abundance in 2024, compared to much tighter financial conditions in the previous two years. This led to a much healthier market environment, opening up new opportunities for securities lending and repo desks. As a result, we have seen a growing appetite on a wider scope of new SFT strategies to explore new product offerings.

2024 was a year of diversification in product offerings, but in order to make this a reality, desks need centralisation of what they can work on more than ever and control over the terms of the funding/financing activity, to ensure they are protected against credit risk, market risk, and inventory changes.

At the same time, we have also seen challenges with the go-live of T+1 in the US market. There are now multiple settlement timelines to comply with, ranging from T+1 in North America to T+2 in Europe to T+5 in some Asian markets, creating trade funding and liquidity mismatches for firms operating globally. To overcome this, we have seen a movement to implement collateral and securities finance systems that support multiple settlement timelines, providing a centralised hub to provide insights into where securities and collateral are being used, and where gaps need to be plugged across different settlement timelines.

Sabine Farhat, Head of Securities Financing, Lending, and Repo Product Management, Murex

Driven by meaningful projects

Fredrik Aas, clearing architecture specialist at SIX, tells Daniel Tison about his quantitative risk model and the importance of a collaborative learning environment in the workplace

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

My entry into the industry was quite random. I have always had a strong interest in finance and financial markets, though I had no direct experience in the field when I first joined SIX. I started in a part-time role with their Norwegian branch while doing my bachelor's degree. I was fortunate to work with managers who recognised my potential and trusted me with increasing responsibilities.

Early on, I was given operational responsibilities of an IT project for the Nordics, which became a pivotal experience. This role eventually transitioned into a full-time position with the Clearing Architecture team, where I am currently employed, which focuses on risk management and operational topics.

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

I find the broad nature of the industry to be highly enticing. I have been exposed to a wide range of topics that not only fuel my curiosity but also contribute significantly to my growth.

One particularly rewarding experience has been my involvement in a project to build a new risk model. This project has expanded my role, giving me increased responsibility and exposure to complex challenges that go beyond traditional finance. It has been highly quantitative, involving advanced mathematical and statistical models for risk estimation, alongside state-of-the-art IT solutions.

Working on this has been deeply rewarding and has strengthened my skills in both IT and quantitative risk — areas that are invaluable for my professional development. Based on my educational background so far, I have found that topics like these are underrepresented, though they will undoubtedly be important for the industry going forward.

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

I feel fortunate to work for a company that values development. SIX offers a wide range of training and development programmes, from online courses covering nearly any area of interest to multi-year development tracks.

I was fortunate to be selected for the ‘Key Talent Journey’, a 12-month programme focused on personal and leadership growth. This programme brought together around 20 young talents from across the company’s business units, and included on-site and off-site courses, individual coaching, as well as sessions with senior management. This allowed me to connect with colleagues across the organisation and gain insights into different products and services.

That said, my most valuable learning experiences have come from my immediate peers and managers. The industry’s broad scope means that no single person can know it all, and I am lucky to work with colleagues who are eager to teach and share knowledge. My managers also prioritise this collaborative learning environment, even when it may take extra time. This support system has been instrumental in my development and growth within the company.

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

There is a common perception of finance as a rigid, hierarchical industry with long hours and a strict dress code. In my experience, that could not be further from the truth. Like in most industries, there are times when overtime is needed, but I have felt no pressure from my managers to work late, quite the opposite — they genuinely value work-life balance and often encourage me to maintain it.

That said, working in clearing presents a unique balance. While we operate with a flat structure day-to-day, certain projects and decisions require a defined hierarchy and formal processes to ensure operational integrity, as failure is not an option in our line of work. For me, this blend is ideal, as I get the freedom and flexibility of a flat structure, along with the clarity and direction of a structured hierarchy when needed.

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

I find this question challenging, as I do not have a fixed five-year plan despite being motivated and ambitious. I do not like the idea of staying in a role or company for a set number of years. Instead, my focus is on continual learning and seeking out new challenges.

A colleague once gave me valuable advice: “Don’t chase salary, positions, or titles — chase projects.” This has shaped my outlook, and if I have a five-year goal, it would be to pursue meaningful projects and opportunities that allow me to grow, learn, and deepen my expertise in diverse areas.

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

My advice for young professionals entering the financial industry would be to stay curious and humble. Ask questions and make the most of learning from others. Every organisation has its experts who are often more than willing to share their knowledge. Seek them out and absorb as much as you can.

That being said, I believe it is important not to shy away from stepping up and taking on responsibilities. Doing so provides invaluable learning opportunities, and most managers will encourage and support your initiative.

On a more practical note, I believe that mastering technical tools early in your career is essential. In my experience, these skills allow you to automate routine tasks, freeing up time to tackle more engaging and complex problems. They also enable you to dive deeper into data analysis, which is often central to the work of young finance professionals.

Fredrik Aas

Based in Oslo, Fredrik Aas is a recent graduate from BI Norwegian Business School with a Master of Science (MSc) degree in finance. Alongside his studies, Aas has worked full-time at SIX where he has held various positions — most recently in Clearing Architecture with a strong focus on risk management and operational topics.

Before joining SIX, Aas completed a few internships in data analysis for an auditing firm. He has also served in His Majesty the King's Guard and is now part of the reserves.

Balancing a full-time workload while pursuing a master’s degree was intense but incredibly rewarding for Aas, who spent most of his holidays on exams and coursework. He hopes to hit the simulator this winter to shake off the rust in his golf game and get ready for the spring season. Apart from that, Aas also enjoys squash and the occasional pub night out with friends on the weekends.

SIX selects Sibbern

SIX has appointed Bjørn Sibbern as the new chief executive officer, effective 1 January 2025.

Originally from Denmark, Sibbern has more than two decades of experience in capital markets.

Since the beginning of 2024, he has been leading SIX's international exchange business as global head of exchanges and a member of the group executive board.

Prior to joining SIX, Sibbern spent more than 15 years at Nasdaq, most recently serving as president of European markets.

He holds an executive MBA, a diploma in business administration and a master of science degree in economics and business law from the Copenhagen Business School.

In his new role, Sibbern will succeed Jos Dijsselhof, who will step down after seven years with SIX to pursue a new opportunity in the Middle East.

Geggus to head Triparty

BNP Paribas's Securities Services has appointed Andrew Geggus as global head of Triparty Collateral Services, in addition to his current position as global head of Agency Securities Lending.

In this expanded role, he will leverage his industry expertise to further combine the bank's securities lending and triparty collateral management offerings, generating new efficiencies and value for clients, according to the firm.

Prior to joining BNP Paribas in January 2020, Geggus spent six years at Northern Trust, where he served as head of APAC securities lending trading.

Frederic Pascal, head of market and financing services, Securities Services, comments: "Andrew's vast industry knowledge and strategic thinking make him the perfect fit to lead the growth of our securities lending and triparty collateral services. We look forward to seeing the success he will bring and the value he will add for our clients."

Tranquillini departs Edaa

CEO Advisor of the Securities Depositary Center Company (Edaa) Andrea Tranquillini has announced on LinkedIn that he will be leaving the financial services company.

He has held the position at Edaa for two-and-a-half years and describes his time as "a tremendous human journey as well as an enriching professional experience".

Tranquillini highlights that the company fully owned by the Saudi Stock Exchange (Tadawul), has delivered a new strategy and began the transformation of Edaa "from a national into an international market player".

He says: "I joined in June 2022 full of curiosity and with great expectations, and during these 30 months I am very pleased to say that we have achieved what we wanted."

DTCC appoints Winnike

DTCC has appointed Michael Winnike as managing director of Clearing & Securities Services (CSS), Strategy and Market Solutions. He will report to Brian Steele, managing director and president of CSS.

In this new role, Winnike will oversee strategic planning for CSS and partner with senior leaders to develop a holistic strategy that connects and aligns asset classes and market segments, define strategic objectives and lead key enterprise-wide initiatives.

The firm says he will also help identify new market opportunities and support the development of solutions to meet the evolving needs of the firm's clients, while representing DTCC externally across multiple stakeholder groups.

Prior to his new role, Winnike most recently served as director of Market Structure at BlackRock. Here, he led the firm's Treasury clearing programme and helped define the company's market structure strategy.

Economou retires

Peter Economou is retiring from his post as chief investment officer at eSecLending, the firm has announced.

After spending more than 12 years with the independent third-party securities lending agent, he will depart eSecLending at the end of this year.

Before joining the firm, Economou was a financial advisor at Morgan Stanley and a senior leader at State Street.

He began his career in financial services in 1985, moving to securities lending in 1994.

In a farewell post, eSecLending expressed its gratitude for Economou's years of service, saying: "His leadership was crucial to the support of our clients and the continued success of building our business as an independent securities financing agent. With this new chapter for both Peter and our team at eSecLending, we are excited for what is to come."

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