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Tackling regulatory transformation

The focus on data quality and enforcement by regulatory agencies is heating up, warns S&P Global Market Intelligence Cappitech's Igor Kaplun

BNY pilots first intraday triparty repo trade

BNY has successfully piloted the first intraday repo trade settled through its triparty infrastructure. The transaction took place between UBS and Swiss Re in February, where UBS borrowed cash from Swiss Re while delivering collateral through BNY's platform.

BNY says that the successful transaction marks the ability for market participants to instruct a same-day repo, where the allocation and return of collateral will be settled intraday against payment.

The triparty solution also allows firms such as UBS to source liquidity at a specified time, without the need to borrow for a full 24-hour period.

Gesa Johannsen, BNY's executive platform owner, global collateral, says: "Our intraday triparty repo solution is an important step towards providing more flexible liquidity management possibilities to our clients, enabling them to more efficiently fund their day-to-day operations."

Jason Crosskey, head of EMEA funding and optimisation solutions at UBS, adds: "This facility enhances intraday capabilities by allowing institutions to provide or access cash at specific times to better manage liquidity."

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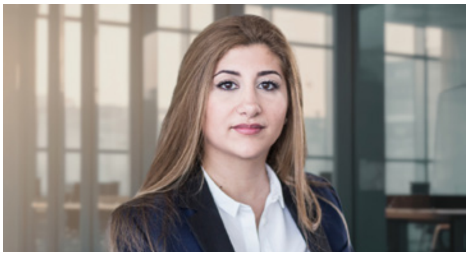

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BUCKLER Securities expands service offerings

BUCKLER Securities has expanded its service offerings by adding correspondent clearing, fixed income prime brokerage, and securities lending, following an approval from the Financial Industry Regulatory Authority (FINRA).

As a broker-dealer, registered with FINRA and the US Securities and Exchange Commission (SEC), BUCKLER specialises in US Treasury trading and high-quality liquid assets securities financing.

Richard Misiano, CEO of BUCKLER, comments: “These approvals are an important milestone in growing BUCKLER into a more comprehensive platform spanning securities prime services.

“We remain committed to continually enhancing our products to meet the needs of the institutional market, and are confident these expanded offerings will bring a new level of service to our institutional clients and partners.”

BUCKLER’s sales and trading business trades fixed income securities over-the-counter (OTC) on an agency and principal basis with broker-dealers, banks, US state funds, hedge funds, asset managers, sovereign wealth funds, and other institutional clients.

Led by Gregory Minard, managing director of repo sales and trading, BUCKLER’s team aims to build upon its market experience to grow these new offerings in correspondent clearing, fixed income prime brokerage, and securities lending.

MUREX

MX.3 for Collateral Management and Securities Finance

Banks can now break silos and bridge the gap between collateral management, settlement and securities finance for a wide asset class catalog.

Benefit from Murex technology and deploy centralized real-time inventory management, a holistic strategy on funding activities and a high level of automation that can mitigate risk, manage liquidity and reduce cost.

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Canadian bank goes live on Trading Apps' TA.Link

The National Bank of Canada has collaborated with Trading Apps through the integration of the firm's TA.Link product.

TA.Link uses API functionality and works to facilitate scalability for its members. The platform's pricing model aims to eliminate the constraints of transaction-based fees.

The National Bank of Canada has integrated TA.Link into its proprietary technology ecosystem, using API capabilities to enhance both borrowing and lending activities.

According to Trading Apps, this integration ensures a streamlined and efficient securities finance workflow, improving automation and operational flexibility.

Matthew Harrison, CEO of Trading Apps, says: "TA.Link is a secure, real-time messaging platform that connects global participants across the securities finance ecosystem. It provides a foundation to streamline pre and post-trade negotiated lifecycle events, including trade execution, rerates, recalls, and returns.

"With Common Domain Model support, TA.Link is at the forefront of the evolution in securities finance, offering a powerful addition to the Trading Apps suite."

James Bryce, managing director at National Bank of Canada, adds: "National Bank is excited about the seamless onboarding experience with TA.Link.

"The platform's scalability and automation capabilities align perfectly with our strategy to enhance efficiencies and support future growth in securities finance."

ISLA announces co-chairs for Madrid conference

The International Securities Lending Association (ISLA) has now confirmed its co-chairs for this year's Securities Finance & Collateral Management Conference.

Located in Madrid, Spain and taking place from 17-19 June, the event will be co-chaired by HSBC Securities Services' Adnan Hussain and Societe Generale's Geraldine Trippner.

Hussain — managing director, global head of treasury and securities lending — brings over 20 years of industry experience.

He was most recently at BNP Paribas' Securities Services where he was responsible for market and financing services in the UK.

Trippner — managing director, head of financing solutions and client profitability — has been with Societe Generale since 1993 and has been running cash and repo desks on core European debts for 20 years.

Through keynote presentations, panel discussions and discussion streams, the conference will explore how firms can deploy economic capital against the backdrop of themes such as digital transformation and AI, T+1, Basel III and operational resilience, locally, while also remaining competitive, globally.

Pirum goes live with ClearingConnect

Pirum has welcomed the go-live of its ClearingConnect solution, which is now working to support centrally cleared trading of securities financing transactions (SFTs) in Europe.

ClearingConnect aims to provide clients with improved capital efficiency and risk mitigation, as well as the processing of cleared lifecycle events.

It is designed to allow interoperability with existing Pirum solutions and enable straight-through processing across the securities lending lifecycle.

Cboe Clear Europe is now live on the platform, while other industry participants are in advanced stages of integration with the solution, the firm says.

Jan Treuren, SFT product lead at Cboe Clear Europe, comments: “Since the start of our journey to launch an SFT clearing service, we have appreciated the trust, dedication and commitment shown by Pirum.

“We are excited to work together over the coming weeks and months to establish central clearing within the SFT ecosystem and explore its potential expansion into other regions and asset classes.”

Rob Frost, chief product officer at Pirum, adds: “ClearingConnect represents another leap in Pirum’s ability to support clients across the full securities finance transaction, whether centrally cleared or bilaterally settled.

“As the globalisation of clearing proceeds at pace, we are delighted to support industry participants, globally, with the expected growth in SFT central clearing this year and beyond.”

Tradeweb reports 28.6% YoY rise in repo ADV

Tradeweb has reported a 28.6 per cent year-on-year (YoY) rise in repo average daily volume (ADV) traded on its platform for March, generating US$741.3 billion.

According to the global electronic marketplace operator, global repo trading activity was supported by increased client participation across the platform.

In the US, volumes were driven by the unwinding of the Federal Reserve's balance sheet and reduced balances in the reverse repo facility, says Tradeweb.

Significant US and German policy shifts were also behind volatility in European markets, driving strong activity.

For rates trades, US government bond ADV was up 30 per cent YoY to US$249.3 billion. European government bond ADV increased by 27.6 per cent YoY to US$63.4 billion.

"Strong US Treasuries ADV was led by record activity across the institutional client channel and robust activity across the wholesale client channel," explains Tradeweb. "Record European government bond ADV was driven by strong volumes across our institutional client channel, supported by a busy primary market, as well as heightened volatility in Europe."

The ADV for swaps and swaptions jumped 44.8 per cent YoY to US$592 billion, with total rates derivatives ADV climbing 49.2 per cent YoY to US$1.01 trillion.

According to Tradeweb, this activity was driven by evolving US and global tariff policies, as well as global uncertainty surrounding financial markets.

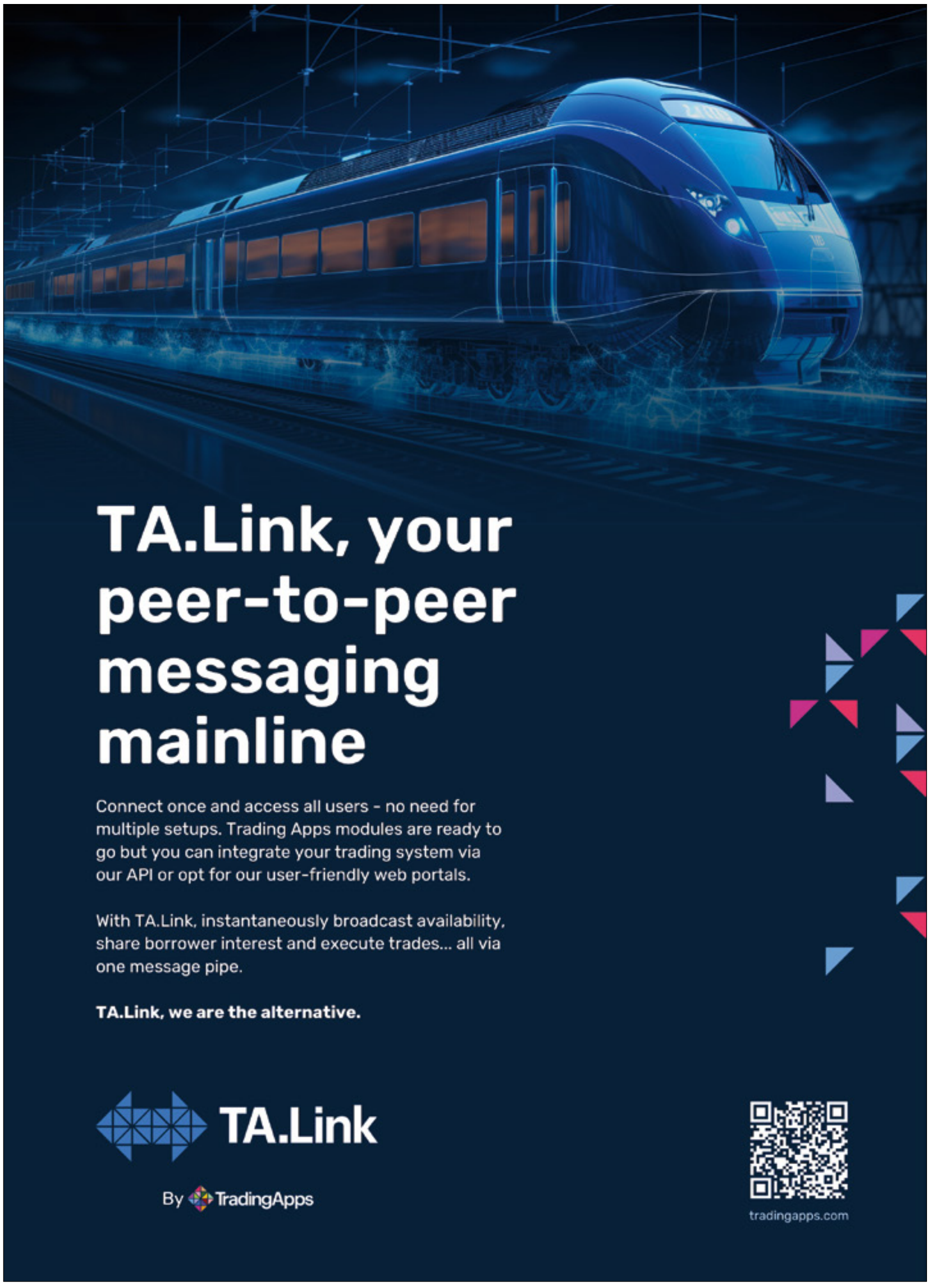
"Volumes were supported by a 34 per cent YoY increase in compression activity, which carries a relatively lower fee per million. Q1 2025 compression activity as a percentage of swaps and swaptions was higher than Q4 2024," the firm adds.

In credit markets, fully electronic US credit ADV was up 26.6 per cent YoY to US$9.5 billion. European credit ADV grew by 14 per cent YoY to US$3.1 billion.

US credit volumes were driven by increased client adoption of Tradeweb protocols, most notably request-for-quote (RFQ) and Portfolio Trading.

Tradeweb captured 18.4 per cent and 7.6 per cent of fully electronic US high grade and US high yield TRACE, respectively.

The firm attributes record European credit volumes to increased volume across all its protocols, including record volume in Portfolio Trading, Tradeweb's Automated Intelligent Execution (AiEX) tool, and Tradeweb AllTrade.



FSC reduces daily short selling quota in Taiwan

The Financial Supervisory Commission (FSC) has announced temporary measures on short selling to maintain market stability and in the interest of investors.

According to the authority, the US reciprocal tariff policy has caused stock markets in various countries to “fall sharply” in recent days.

While the FSC awaits further international market information, it issued temporary measures which took effect from 7-11 April 2025.

Daily intraday borrowed securities selling orders were reduced to three per cent (from 30 per cent) of the average daily trading volumes of the securities in the preceding 30 days.

Borrowed securities selling orders by securities firms for hedging needs such as issuing call warrants, operating structured products, and acting as market makers for stock options or stock futures by futures dealers, for example, were not subject to the restrictions.

Further, the minimum short lending margin ratio for listed and over-the-counter (OTC) securities were adjusted from 90 per cent to 130 per cent.

Broadridge partners with Fnality

Broadridge has partnered with Fnality to demonstrate interoperability between Broadridge's distributed ledge repo (DLR) platform and Fnality's payment system (FnPS).

The companies say the successful collaboration demonstrates greater efficiency in bringing liquidity and risk reduction to US and European financial markets, as well as more secure settlements.

It also marks the broader industry transition towards real-time settlement in Europe.

Eurex Repo average daily volume drops

Trading volumes on Eurex Repo have dropped by 24 per cent year-on-year (YoY) to €319.8 billion for March in average daily term-adjusted volume.

This was driven by a 20 per cent YoY decline in GC Pooling average daily term-adjusted volume to €149.4 billion, and a 27 per cent YoY dip in special repo average daily term-adjusted volume to €170.4 billion.

On the other hand, notional outstanding volumes for OTC derivatives clearing have risen 14 per cent YoY for the month, to €38,849 billion.

Growth in this area is attributed to YoY increases in notional outstanding for interest rate swaps (16 per cent, €16,914 billion) and overnight index swaps (35 per cent, €4,839 billion).

Furthermore, average daily cleared volumes through Eurex Clearing have jumped 47 per cent YoY to €312 billion for March.

This features a 149 per cent YoY spike in interest rate swaps to €52 billion, along with a 102 per cent YoY hike in overnight index swaps to €42 billion.

Horacio Barakat, head of capital markets innovation at Broadridge, says: "This leap forward is a key milestone in expanding our DLR platform interoperability to digital cash solutions and underscores our commitment to delivering innovative, cutting-edge solutions for our clients."

“Fnality and Broadridge are at the forefront of this evolution, providing the critical infrastructure needed to support accelerated settlement and unlock new efficiencies across global financial markets," adds Michelle Neal, CEO of Fnality International.

Euroclear joins HKMA’s Project Ensemble

Euroclear has onboarded the Hong Kong Monetary Authority’s (HKMA’s) Project Ensemble, which aims to foster and shape the tokenisation ecosystem in the region.

Launched in March 2024, the initiative brings together experts and industry participants to design, test, and implement a robust framework for tokenisation in Hong Kong.

As an Architecture Community member, Euroclear will contribute by developing a set of industry standards to support interoperability among central bank money, tokenised money, and tokenised assets.

Euroclear Bank’s collateral management services adopts Taskize

Euroclear Bank’s collateral management services has adopted Taskize and its integrations with email and Symphony Messaging to facilitate and simplify query resolution.

Mike Reece, managing director, head of collateral management services and head of Euroclear Bank's client services, comments: "The key benefit in integrating Taskize with our collateral management workflow is to offer our counterparties a platform through which they can engage with us in a consistent, clear manner that reduces cost, reduces risk, and improves client satisfaction across front, middle, and back office teams.

"Discussions around collateral can be lengthy, so it is essential that we use a modern, purpose-built communications platform to host an open dialogue through which to provide regular updates, and resolve issues promptly and in their entirety."

Taskize provides a single ecosystem where different stakeholders can exchange, negotiate, and conclude their deals, with the aim of allowing all information to be shared regardless of the existing communications technologies each party uses.

Diederik Geeraerts, CEO of Taskize, adds: "Selecting the Taskize platform and our Symphony Messaging and email integrations to more effectively manage enquiries, Euroclear's collateral management services team has made clear its intention to streamline communications and bolster counterparty relationships, now and well into the future."

Ripple acquires Hidden Road

Ripple, a digital asset infrastructure provider, has acquired Hidden Road, a multi-asset prime broker, for US$1.25 billion.

Besides prime brokerage, Hidden Road offers clearing and financing services across FX, digital assets, derivatives, swaps, and fixed income.

The firm will migrate its post-trade activity across the XRP ledger to facilitate operations and lower costs.

Marc Asch, founder and CEO of Hidden Road, says: "With new resources, licenses, and added risk capital, this deal will unlock significant growth in Hidden Road's business, allowing us to increase capacity to our customer base, expand into new products, and service more markets and asset classes."

Ripple also sees the potential to optimise costs and liquidity in its cross-border payments solution, Ripple Payments, and provide custody services to Hidden Road's customers who need bank-grade digital asset custody.

Brad Garlinghouse, CEO of Ripple, comments: "We are at an inflection point for the next phase of digital asset adoption – the US market is effectively open for the first time due to the regulatory overhang of the former SEC coming to an end, and the market is maturing to address the needs of traditional finance."

ICMA European repo survey shows outstanding value of €10.8 trillion

The International Capital Market Association's (ICMA's) European Repo and Collateral Council (ERCC) has released its 48th semi-annual European repo market survey.

The survey measured and analysed the value of outstanding repo and reverse repo on the books of 61 entities at the close of business on 11 December 2024.

The total value of repos and reverse repos still outstanding on the books of participants fell back 2.3 per cent year-on-year (YoY) to €10,860 billion.

The latest total represents the first contraction since June 2020, but was presaged by a deceleration in the rate of growth over the previous 18 months.

The results show the first downturn in market size since June 2020 — though unlike the temporary Covid-induced dip, this decline may reflect a more structural shift, according to ICMA.

"The transition from quantitative easing to quantitative tightening appears to have hit trading in specific collateral in particular, prompting questions over whether this marks a true turning point for the market," says the association.

A shift in balance sheet allocation away from Europe and toward the US was also evident, as trading opportunities in the euro area were perceived as relatively weaker.

Correspondingly, European demand for US dollars and Treasuries continued to increase, now reaching record levels in collateral holdings.

Meanwhile, some core eurozone bonds saw diminished investor interest, mirrored in subdued activity across automatic trading systems and CCP platforms.

ICMA believes these dynamics may be linked to political uncertainty and the heavier issuance of government securities.

As the association surveys a sample of the European repo market, the headline number must be taken as the minimum size of the European market.

Additionally, ICMA notes that the latest survey covers the period prior to the tariff regime introduced by the new US administration.

Tackling regulatory transformation projects

The focus on data quality and enforcement by regulatory agencies is heating up, with more pressure piling on market participants to ensure that reporting is complete, accurate, and timely, warns S&P Global Market Intelligence Cappitech's Igor Kaplun

For firms subject to trade and transaction reporting obligations — such as the Securities Financing Transactions Regulation (SFTR), the European Market Infrastructure Regulation (EMIR), the Markets in Financial Instruments Directive (MiFID), and Dodd-Frank — since 2022, we have faced some of the most challenging times since the introduction of the G20 reporting mandates in 2012.

Last year alone, the industry was impacted by five regulatory changes, including EMIR (EU and UK), the Monetary Authority of Singapore (MAS), the Australian Securities and Investments Commission (ASIC), and the Financial Services Agency of Japan (JFSA), as well as the go-live of the Unique Product Identifier (UPI) in North America.

2025 looks a bit lighter with two big regulatory changes in Canada and from the Hong Kong Monetary Authority (HKMA). While we look at what is in scope for 2026, we see the US Securities and Exchange Commission's (SEC's) 10c-1a, MiFID III, and others.

These regulatory changes require significant investment in technology, data, and resources to ensure that current systems are upgraded to meet new requirements. These pose significant costs to financial firms that can range from hundreds of thousands to millions of dollars.

In parallel to the pace of regulatory change, the focus on data quality and enforcement by the regulatory agencies is heating up, and more pressure is piling on market participants to ensure that reporting is complete, accurate, and timely.

The combination of these factors has created numerous challenges in resourcing for these large-scale projects, which has proven to be problematic for many firms, not only in securing budget approvals but also in finding the right talent with the right skill set to help with these engagements, deliver on tight timelines, and ensure that the final product meets regulatory and business objectives. This is an industry-wide challenge across the North America, Europe, Middle East, and Asia regions.

Cappitech has been at the forefront of providing trade and transaction technology to help clients meet these obligations, and we continue to grow our capabilities through continued investment in our product and consulting offerings.

Controls

There are two concepts around controls worth exploring: pre-mortem and post-mortem checks.

In the pre-mortem view, a key consideration in tackling regulatory transformation projects is to understand the current state of play of the firm's regulatory reporting process, governance, and controls. Having an independent review of what is currently in place is critical to understanding whether or not you are meeting your existing regulatory obligations — look for improvements, and understand some of the best practices in the industry around a particular regulation, product, or even source system implementation.

These checks are relevant when there is a new regulation, a new product or business being launched, or a change to the business, such as a merger or acquisition. These reviews help clients to understand the impacts of these decisions on their trade and transaction reporting obligations. From these client assessments, we have witnessed a number of key observations.

Firstly, the client wants to take on a new trading relationship, but the counterparty does not offer delegated reporting. The client needs to assess the impact of reporting themselves, using a vendor, or possibly exploring a different trading partner.

Secondly, the client is launching a new fund and will be trading a reportable product. What data is required to be reported? How can that data be sourced, enriched, and reported?

“A key consideration in tackling regulatory transformation projects is to understand the current state of play of the firm's regulatory reporting process, governance, and controls.”

Cappitech has been working with clients across sell and buy sides to help them understand their existing reporting infrastructure. These independent assessments or health checks provide a critical view into where there may be existing gaps, an overview of industry best practices, as well as checks on data accuracy, completeness, and timeliness.

For many financial institutions, the focus for trade reporting is ensuring that the next regulatory deadline is met and that trades are being reported to the appropriate regulatory endpoint.

However, it is critical that firms use the opportunity to take stock of their current infrastructure to ensure it is fit for purpose. When reviewing recent trade reporting fines issued by the Commodity Futures Trading Commission (CFTC), for example, most orders come back to supervisory deficiencies ranging from policies and procedures to not having sufficient personnel as well as the right controls in place.

The control framework surrounding trade reporting is no longer a ‘nice-to-have’ but is a critical component of a firm’s regulatory obligation, and ensuring that framework is tested and reviewed with a critical eye is paramount.

The other type of assessment is the post-mortem, which is focused on checking the quality of your reporting infrastructure, controls, and data post a regulatory implementation.

Any regulatory-driven mandate is usually implemented on a tight timeline, and certain items or requirements may get missed, pushed out as day-two items, or may need to be reviewed to ensure they are meeting the requirements set out in the rewrite, refit, or regulatory initiative.

Regulatory change

Marrying the obligations and challenges of the 'run the bank' model to now 'change the bank', a new set of considerations is needed for these large-scale transformation projects.

Can we reallocate resources from business-as-usual on a secondment basis to assist with the transformation? What expertise do we have internally that we can leverage? Should we hire a full-time equivalent (FTE) to help fill a critical gap in knowledge or expertise? What does that FTE do after the transformation project is completed? Should we bring in consultants to help get over the line?

These are all valid questions and considerations, and every firm will have a different answer based on its unique circumstances. One aspect that continues to arise is the ability to find the right talent, in the right location, at the right price. Yes, many firms still operate in a remote setting, but does having a consultant in Singapore help you when your project teams are located in New York?

The nature of trade and transaction reporting represents a unique resourcing challenge, as it lives at the intersection of technology, regulatory expertise, trading, operations, and compliance. How many resources are available in the market that have expertise across all of these functional areas and are available within your price range?

Cappitech has been supporting clients through these regulatory transformation projects with our technology solutions and consulting resources, such as providing expertise through business analysts and regulatory subject matter experts.

These large-scale transformation projects are complex, especially when there are multiple regulatory changes happening at the same time, such as the MAS/ASIC rewrite in 2024, or are completely brand new, such as SEC 10c-1a, particularly for those firms not in scope for SFTR and would be reporting securities lending transactions for the first time.

Cappitech's reporting solution is used by over 600 clients around the world, ranging from global systematically important banks, regional banks, asset managers, hedge funds, brokers, and corporates. Cappitech Consulting is our consulting arm that helps clients with health assessments, regulatory interpretation, business analysis, and large-scale regulatory transformation projects.

New regulatory requirements are uniquely challenging to interpret the rules, understand how they apply to your particular business, and to initiate a project plan, all with the looming deadline or a compliance go-live. As it stands now, SEC 10c-1a is set to go live on 2 January 2026, which means there is less than eight months to accomplish a great deal during that time.

There is a strong likelihood that SEC 10c-1a will get delayed, which will be a much-welcome reprieve for the industry, but the challenges of implementing a new regulation are still there. As there are many similarities to the existing SFTR regulation, being able to leverage infrastructure and people resources that have the SFTR knowledge will be crucial for a successful go-live.

Igor Kaplun
Executive director, head of consulting
S&P Global Market Intelligence Cappitech

The first port of call

Henry Trinh, associate portfolio manager at Aware Super, sits down with Carmella Haswell to provide the Australian perspective on securities lending for beneficial owners and how the fund tackles barriers to market

The securities lending landscape is complex and constantly evolving, making it both a challenging and rewarding area to monitor. Market volatility, along with seasonal factors, can present fleeting opportunities that require swift action.

Australia-based superannuation fund Aware Super works to maintain consistent and open communication with market participants to stay informed of emerging trends and to identify these potential opportunities, ensuring it is well positioned to capitalise by extracting further value from its inventory.

While the fund finds success in enhancing capabilities to navigate prospects arising from bank balance sheet constraints, including funding and capital challenges, the team at Aware Super also looks to capture opportunities that demand flexibility in collateral acceptance.

For Henry Trinh, associate portfolio manager at Aware Super, pension funds have long been a cornerstone of the securities lending market due to their role as a stable source of supply.

“With their long-term investment horizons and large, diverse asset portfolios, they often serve as an anchor, offering stability and committed supply that counterparties can access at scale. Over time, their role and presence in the market have evolved significantly.”

Beneficial owner programmes

At Aware Super, securities lending has “always played an important role” as a value-add that complements the fund’s broader investment strategy. Within its markets function — which is responsible for managing portfolio execution, exposure management, and portfolio financing — securities finance is fully integrated into its approach to generating returns for members.

Speaking to Securities Finance Times, Trinh highlights: “A key aspect of our securities finance programme is that it’s embedded in the front office, managed by investment professionals, in concert with personnel who look after the management of the fund’s cash, fixed income and equity portfolios, ensuring that we can make timely, informed decisions in line with our overall investment objectives.”

He believes that this integration “goes beyond just executing positions”. Working closely with public market portfolio managers, the fund looks to identify and leverage opportunities in the securities lending space that may impact their positions.

The benefits from entering securities lending programmes for beneficial owners are broad and largely stem from increasing proximity to the underlying assets being managed, says Trinh, coupled with taking greater control with active decision making.

Breaking down the benefits, Trinh highlights a number of key points. First, these programmes provide a source of enhanced returns by providing an additional revenue stream incremental to market returns generated from holding the public market securities.

Secondly, depending on how much flexibility and discretionary activity is integrated within the programme, it can provide access to additional sources of liquidity and funding. Finally, the scalability of strategies and diversity of market participants involved, create opportunities to tactically position for market dislocations within global funding markets.

Reviewing the fund's securities lending programme, Trinh says it has "evolved significantly" to stay competitive and aligned with the changing dynamics of the global market.

"As an institutional investor, we manage a diversified portfolio of public market securities and actively generate value through our securities finance strategies. Initially, our programme was more passive and indemnified, relying exclusively on physical format trades implemented through an agent lender," he explains.

However, to meet the increasing demands of the market and improve overall outcomes, the fund has made significant advancements.

Aware Super says it has strengthened its internal risk management framework to be more robust and global in scope. Additionally, it has transitioned to an un-indemnified model that uses both physical and synthetic formats to implement a range of securities finance strategies. This shift aims to enhance revenue generation and plays a vital role in improving fund liquidity, offering a more flexible and responsive approach to market conditions.

Breaking barriers

Previously, pension funds were more passive participants, but have now become increasingly sophisticated, Trinh explains. Some now have larger, more focused teams equipped with mandates to pursue active strategies, by building in-house capabilities, that create tangible value for their members.

Many pension funds have also established international footprints, he adds, enhancing their proximity to global markets and deepening relationships with all participants within the securities financing ecosystem.

However, these funds are not operating without barriers to market. From an Australian-based superannuation fund point of view, Trinh says challenges are centred on the "well-defined regulatory environment that we operate in", alongside the constraints of the Australian Eastern Daylight Time (AEDT) time zone with respect to the European and American markets.

Trinh continues: "Compared to many of our global peers, we need to uphold strict compliance with regulation designed for the local superannuation fund community, that places constraints on the fund's ability to take on leverage and specific use of synthetic trades involving domestic equities."

This, combined with operating in an "unfavourable" time zone, creates challenges for Aware Super to build its footprint and deepen relationships in the market for US collateral-aligned opportunities.

"We respond to these barriers by focusing on areas of the portfolio, where we retain a competitive advantage to deliver outperformance and have the greatest discretion," he adds.

Looking forward

Looking forward, Aware Super has several core priorities over the coming 12 months. For example, the fund has an appetite to look at pursuing innovative ideas that require collaboration with a large beneficial owner in emerging areas such as cleared securities financing trades.

Another priority is to automate some of its existing processes by working closely with its agent lender and collateral manager, Trinh explains. He believes this will help the fund broaden the opportunity set it can access by considering different trade ideas and continuing to refine the areas where it has identified a competitive edge.

Above all, a key focus for Trinh is to remain the first port of call for borrowers in the market. Particularly for those who are interested in partnering with Aware Super on structured trades that address different areas of focus, whether it be revenue generation or optimising the deployment of fund liquidity.

From an Australian superannuation fund perspective, Aware Super's purpose is driven by the objective to improve member outcomes. It looks to maintain a close relationship with members "compared to other pension fund markets".

"This is particularly so when engaging in securities finance trades as we right size our risk appetite, being mindful of the impact on member outcomes. We aim to be the first call for new ideas, but it is not an automatic yes to every proposal," Trinh notes.

"We recognise the privilege of managing our members' retirement savings, and this responsibility guides our decision making as we evolve our programme over time."

Collateral Panel

Industry specialists reflect on the advancement of collateral management, from triparty to optimisation strategies, the impact of changing central bank policies and QT measures, as well as the integration of ESG considerations

Panellists

Marije Verhelst, Head of Product Strategy and Product Development Collateral Management and Securities Lending, **Euroclear**

Sagar Patel, Head of Americas Tri-party, **J.P. Morgan**

Ed Corral, Head of Collateral, **Pirum**

Marta Tymkowska, Vice President, Alpha Collateral, **State Street**

Wassel Dammak, Director, Collateral Management, **Vermeg**

How are advancements in triparty collateral management systems addressing the challenges of cross-border collateral mobility, particularly in fragmented regulatory environments?

Marta Tymkowska: For State Street, efficient collateral mobilisation is not just about moving assets — it is about making sure they are in the right place at the right time, without the cost and delays of fragmentation and inefficiencies. We are committed to enhancing collateral flows across our entire Collateral+ service, supporting both bilateral and triparty clients in optimising their asset deployment. By leveraging optimisation tools, we aim to enhance collateral funding strategies and to facilitate seamless transfer of assets on behalf of our clients. We are also enabling the streamlining of collateral movements across our network, ensuring that clients can access and deploy their assets more efficiently while minimising operational frictions.

Sagar Patel: Mobilisation of collateral between global entities has been a key theme, with no signs of slowing down — in fact, the trend is expected to accelerate. For example, we are seeing increasing demand and activity as borrowers raise securities locally and reuse them internationally, facilitated by the triparty infrastructure.

Emerging markets, in particular, are abundant with such opportunities. Consequently, it is crucial for market participants and service providers to find innovative solutions to address these mobility use cases. This involves consideration of unique regulatory and operational requirements, risk management, keeping pace with market changes, and unlocking yield.

In addition to confirming that models comply with local regulatory requirements, they must also limit operational burdens on triparty collateral providers and receivers. This involves designing operational solutions consistent with local legal frameworks.

Furthermore, on the operational side, it is important to create solutions that complement existing operating models and infrastructure. This includes leveraging existing systems and flows, connectivity, and reporting, as well as utilising existing legal contracts. Our experience in launching models in emerging markets has taught us valuable lessons on structuring solutions that do just that.

A recent example is local institutional firms in Mexico getting connected to triparty systems due to initial margin (IM) posting requirements under the Uncleared Margin Rules (UMR). The positive experiences of global institutions using triparty for hundreds of billions of dollars in IM posting have reassured the local Mexican market that triparty is a proven and trusted solution. Firms have been active on the triparty platform for UMR for several months now, experiencing operational benefits and unlocking additional economic value as the next consideration. In other words, triparty connectivity for IM serves as a stepping stone for other types of collateral management and securities financing activities. Local firms were eager from the outset to set up triparty for their initial margin requirements, seeing it as a bridge to financing structures such as repo. As new segments and regions integrate into triparty, increased mobility of collateral and offshore transactions across the globe will naturally follow.

Our focus remains on unlocking and mobilising unencumbered assets in Asia, while complying with local regulations and advocating for structural changes to improve accessibility.

Ed Corral: Simplified rehypothecation structures across legal entities or even within a single legal entity have made cross-border collateral movements more efficient. Meanwhile, technological solutions, like Pirum's CollateralConnect, continue to improve firms' profitability by enabling clients to utilise collateral more efficiently, enterprise-wide, and reduce liquidity capital requirements.

Looking ahead, tokenisation has demonstrated value in this regard with considerably more upside to be realised. First, the industry needs far more standardisation to enable the consistent, harmonised regulatory requirements for tokenisation.

Marije Verhelst: Triparty collateral management systems are delivering highly scalable and risk-controlled environments for market participants to collateralise their exposures. The multiple waves of regulatory requirements had far-reaching impacts on the operating models, supporting the collateralisation processes and increasing the demand for collateral and the purposes it was used for. As a matter of fact, before being used as collateral, assets are first held in multiple holding locations like custodians, central securities depositories (CSDs), etc, making accessing the collateral the first challenge in the process. Triparty agents, such as Euroclear, are constantly working to make additional asset classes eligible in their triparty collateral management systems, with the aim of improving financing opportunities in hard-to-access assets as well as maximising collateral optimisation.

Euroclear is supporting an ecosystem of market participants around the world and, as an international CSD, is continuously linking with new asset holding locations, making them “Euroclearable” and facilitating cross-border collateral mobility. For example, following legislative changes in 2024, we were able to make South Korean government debt Euroclearable, facilitating the use of this high-quality asset class in our triparty collateral management system.

Wassel Dammak: Certain advancements are related to implementing standards like SWIFT’s ISO 20022 messages to streamline communication between cross-border entities. Others are related to harmonisation of collateral schedules and common eligibility criteria to reduce the impact of jurisdictional differences. Standardised and normalised collateral schedules eligibility formats like the Common Domain Model (CDM) are key for interoperability.

One of the main features to address these challenges is the ability to consolidate a real-time inventory with centralised views of global collateral pools across custodians and agents, and real-time collateral optimisation engines that prioritise cost-effective and regulation-compliant assets. Such a feature allows for mobilising assets efficiently regardless of where they are held.

Market infrastructure modernisation, like the Eurosystem Collateral Management System (ECMS), and harmonisation, like the T+1 settlement, are key to improving the speed and reliability of collateral movement across jurisdictions.

What are the implications of the growing trend toward segregated collateral accounts in securities lending, and how is this impacting rehypothecation practices and market liquidity?

Verhelst: In Euroclear, we are constantly enhancing our triparty systems to cope with the current and future requirements of our ecosystem of market participants, across all segments in the collateralised market. It is worth noting that our triparty collateral management system is, by design, segregating collateral by effectively settling collateral movements between two accounts in Euroclear — as opposed, for example, to so-called ‘earmarking’ techniques.

In the securities lending space specifically, we have been faced with a consistent demand to further segregate collateral from entities acting as intermediaries for the ultimate securities lenders. We have implemented solutions to meet such requirements — for

“As sustainable finance gains momentum, ESG is reshaping traditional collateral eligibility and valuation practices.”

Wassel Dammak
Director, Collateral Management
Vermeg

example, a 'Third-Party Account Holder' model whereby the collateral received in triparty is held in an account of the custodian of the ultimate lender. This is a model open to any custodian. It is fair to say that any segregation requirement is, by definition, putting some constraint on collateral rehypothecation, but the securities lending business flowing in our triparty collateral management system is quasi-exclusively business-to-consumer, with ultimate lenders having fairly limited rehypothecation needs.

Dammak: The growing trend toward segregated collateral accounts in securities lending is driven by regulatory pressure and increased demand for transparency and counterparty risk mitigation. While it enhances transparency and control, it also reduces rehypothecation usage, particularly for high-quality collateral, such as government bonds. A decline in rehypothecation implies less collateral in circulation and might tighten liquidity, particularly in stressed markets or for high-grade assets.

Tymkowska: Segregated accounts ensure that collateral is kept distinct from other assets, thereby enhancing transparency and security. However, this segregation also limits the ability to rehypothecate collateral, increasing costs for collateral receivers as well as market liquidity. Market participants are adapting by exploring alternative methods, such as pre-trade analytics and trade execution optimisation, to reduce collateral usage without compromising regulatory compliance and risk management standards.

Corral: All forms of segregation limit the efficiency of one pool of fungible collateral. That said, constructs are in place to allocate collateral in line with how it has been segregated and/or, when permissible, commingle it with general collateral. This development does present limitations, but efficient collateral management systems can overcome such limitations. While setting up segregated accounts can be time-consuming, once they are ready, you need technology that can manage the required levels of automation. After that, it simply becomes business as usual.

In light of increasing regulatory focus on non-cash collateral, how are market participants revising their collateral optimisation strategies to balance risk management with capital efficiency?

Dammak: With the regulatory focus shifting toward non-cash collateral, market participants are optimising their collateral strategies by incorporating more diverse asset types and using advanced technologies. The regulatory push toward non-cash collateral is reshaping how firms consider collateral optimisation. Market participants are being challenged to maintain strong risk controls to comply with the regulations while still achieving capital and liquidity efficiency.

Expanding the collateral eligibility schedules could increase the flexibility and achieve a better use of dormant balance sheet assets. Advanced collateral optimisation engines rank eligible assets by opportunity cost and liquidity to apply the most optimal allocation logic — like the 'cheapest-to-deliver' — while meeting constraints such as eligibility, concentration limits, and correlation risk.

Corral: A sophisticated collateral optimisation engine, like Pirum's CollateralConnect, can and should manage the required outcomes and consider all regulatory requirements. True optimisation has moved beyond 'cheapest to deliver' to include liquidity coverage ratio (LCR), net stable funding ratio (NSFR), Comprehensive Capital Analysis and Review (CCAR), risk-weighted assets (RWAs), etc. To achieve the efficient optimisation frontier, firms need to be using a collateral optimisation solution that considers all these inputs. Industry participants need a flexible solution, like CollateralConnect, that allows for changing objectives day by day.

Tymkowska: We recognise increasing demand from our clients to meet various collateral optimisation goals and, as a triparty agent, State Street provides clients with optimisation tools to enable them to efficiently allocate collateral in line with their specific goals — whether minimising funding cost, maximising high-quality securities in inventory, or enhancing liquidity metrics. Our optimisation services will adapt to meet margin requirements based on our clients' preferences and, if accessed through State Street's triparty offering, assets can be automatically delivered to the appropriate segregated account.

We consider collateral optimisation to be a component of a broader optimisation solution, including margin optimisation, utilising pre-trade what-if analysis, as well as post-trade functionality, such as novation and compression to lower margin requirements. Integration of fee schedules attributes enables us to identify and solve the lowest transaction cost routes. All of the above can also be made available pre-trade, allowing the client to perform a lifetime cost analysis across all possible trade routes prior to deciding where to place a trade.

Verhelst: Collateral optimisation is not new for a triparty agent like Euroclear. On top of delivering scalable and risk-controlled inventory and collateral management solutions to the worldwide collateral ecosystem, we have always put a strong focus on collateral optimisation to meet the growing needs of major dealers. However, the implementation of mandatory regulatory requirements like LCR, NSFR, RWA, etc, has introduced new needs for dealers to optimise the allocation of their collateral.

In essence, the keywords are ‘data’ and ‘granularity’. Collateral optimisation is all about data, as collateral optimisation can only be as good as the quality of the underlying data decisions are based on. Granularity, because dealers are going as far as assessing an optimal allocation at the individual non-cash (ie security) level. Such assessment is not only based on some dealers’ discretionary parameters — at trade and collateral level, tenor, etc — that are not known by their triparty agents, but also dealers' global holdings and activity across all triparty agents and including their bilateral, non-triparty collateral activity.

We are convinced that technology will be a key enabler for delivering the best collateral optimisation solution going forward.

Euroclear has recently partnered with Transcend, bringing to the market their combined expertise — Euroclear with decades of collateral management experience, data, and infrastructure, and Transcend with its technology and optimisation platform.

How has the persistent shortage of HQLA affected collateral transformation services, and what innovative solutions are emerging to address this scarcity?

Tymkowska: The demand for high-quality liquid assets (HQLA) had initially coincided with an increase in availability. However, as market factors change, the need for increased access to repo facilities and transformation services is driving the uptake of enhanced inventory and collateral management solutions. At State Street, the release of our peer-to-peer (P2P) repo offering is an example of how we are adding to the suite of financing solutions we offer our clients. Enabling access to a variety of lending and repo solutions is core to our overall client service.

Verhelst: In the past, we have seen a shortage of HQLA heavily impacting market functioning. This trend strongly drove growth in securities lending activity and led to a particular focus from clients on ensuring maximum availability and usage of their assets, and the implementation of new inventory management and collateral

“Maintaining data accuracy, security, and compliance across multiple platforms is critical for us to ensure we have operational efficiency and regulatory adherence.”

Marta Tymkowska
Vice President, Alpha Collateral
State Street

optimisation solutions as a result. We now see this trend turning with collateral returning to the market as quantitative easing (QE) is progressively unwound. It will be interesting to see if a switch to a T+1 settlement in Europe reintroduces stresses on some high-quality collateral. We are working with our clients to explore these issues and ensure a smooth transition to a shorter settlement lifecycle.

Corral: In addition to the standard upgrade/downgrade trades, platforms have emerged to address this shortage both traditionally, as well as in the distributed ledger technology (DLT) space. Automated intraday solutions that assist firms in managing HQLA shortfalls during specific times are a more recent development. As the cost of these solutions is only incurred when the HQLA is actually needed, they help firms meet their objectives and save money in the process.

Dammak: The shortage of HQLA has led to increased demand for collateral transformation services, where lower-quality assets are converted into HQLA. This shortage — caused by post-crisis regulations like Basel III's LCR/NSFR, increased margining from UMR, and central clearing mandates — has significantly impacted collateral transformation services, while also giving rise to innovative solutions and market infrastructure changes.

The HQLA shortage is not just a supply issue — it is a structural shift in how collateral is sourced, moved, and priced. The response has been a multi-layered innovation effort across technology, with AI-driven and algorithmic optimisation systems; infrastructure, with tokenised collateral and DLT platforms; and business models, with P2P and sponsored clearing models. Reducing scarcity impact can be achieved through greater automation, digitisation, and decentralisation of collateral management.

What operational and technological challenges are securities finance firms facing when implementing real-time collateral management systems, and how are these being overcome?

Patel: Generally, with real-time collateral management, it is essential to consider collateral optimisation, as both concepts are interconnected. To effectively address real-time collateral management and optimisation, the framework must incorporate sophisticated algorithms, advanced analytics, and a comprehensive understanding of the firm's inventory. This ensures optimal utilisation and efficient mobilisation of assets while adhering to various standards. Real-time collateral management and optimisation require strong governance and continued transformation, rather than merely a strategy, process, or algorithm. The governance and transformation can be divided into three key focus areas: data strategy, analytics capabilities, and collateral mobility. The challenges fundamentally sit across these areas and functions.

Data strategy is the backbone of the collateral optimisation ecosystem. A clear and effective data strategy is controlled, robust, and end-to-end focused. In this context, data encompasses multiple dimensions: instrument and market data, agreement and collateral eligibility, positions and transactions, and trade/collateral obligations.

Additionally, analytics tools can be used to optimise not only how collateral is deployed, but also to assess inventory stability and identify liquidity substitution opportunities. Data and analytics tools are both a backbone to decision making and execution of those decisions.

While having the right data and analytics in place helps to identify optimisation opportunities, a collateral mobility strategy could ultimately determine whether these opportunities are realised in real time. Collateral mobility can be thought of as enabling frictionless execution and settlement of collateral across all obligations. The strategies' specifics will vary firm to firm, depending on different systems, trading desk organisational structures, local infrastructure, and more. The lack of a collateral mobility strategy could lead to situations where an optimal outcome is identified, but cannot be executed due to the cost or lack of capability to mobilise the collateral.

There are other considerations and components to consider for implementing real-time collateral management systems and operating flows, but the above are key for the fundamental framework.

Tymkowska: From a technological standpoint, integrating real-time data processing capabilities within a highly interconnected financial ecosystem can present challenges. Transitioning to real-time collateral management requires the adaptation of new technology and the seamless integration of these advancements with existing legacy infrastructure.

Maintaining data accuracy, security, and compliance across multiple platforms is critical for us to ensure we have operational efficiency and regulatory adherence. We are increasing our footprint in offering digital solutions to clients that will bring significant efficiencies in collateral mobilisation. Additionally, fostering collaboration with industry participants, regulatory bodies, and technology providers enables us to stay at the forefront of the evolving securities landscape. This proactive approach allows State Street to deliver innovative, scalable, and resilient collateral management solutions.

Dammak: Implementing real-time collateral management systems in securities finance is a major operational and technological undertaking. These systems are essential for improving collateral optimisation, reducing counterparty risk, and meeting intraday liquidity demands. However, firms face several core challenges, like legacy infrastructure and system fragmentation:

- Real-time systems depend on clean, timely, and standardised data. Data must be pulled from multiple sources: trading systems, custodians, market data feeds, and counterparties. Firms struggle with inconsistent formats, latency, and manual reconciliation.
- Real-time collateral management requires low-latency messaging for margin calls, substitutions, and settlements. It also requires intraday updates to positions, eligibility criteria, market prices, and risk metrics.
- From a collateral eligibility and optimisation rules perspective, real-time systems must factor in counterparty-specific eligibility schedules, dynamic haircuts and concentration limits, and market value fluctuations.

To overcome those challenges, firms are migrating to cloud platforms that allow scalability and modular integration and using APIs and microservices to connect legacy systems with real-time engines. Modern systems provide centralised inventory management across business lines and smart allocation engines for optimal collateral bookings and eligibility screening. Data across trading and margining is consolidated in a single environment with real-time dashboards for exposure, availability, and margin metrics.

Streaming data and adopting event-driven workflows to instantly react to collateral movements, pricing changes, or margin triggers is key to reducing latency and enables proactive collateral management. Integration with triparty and custodian platforms with real-time APIs and messaging — for example, via SWIFT ISO 20022 — and intraday collateral substitution and exposure tracking, reduces manual intervention and aligns real-time systems with external settlement and custody layers.

To implement real-time collateral management, securities finance firms are undergoing a tech-driven transformation, combining cloud, APIs, AI, and standardised messaging. The

“Old, rigid systems, siloed business lines and technological debt, are some factors preventing firms from achieving optimal, real-time collateral management.”

Marije Verhelst
Head of Product Strategy and Product Development Collateral Management and Securities Lending
Euroclear

journey is gradual and complex, but firms that succeed are gaining a significant edge in liquidity efficiency, regulatory compliance, and counterparty risk mitigation.

Corral: In addition to the high cost in terms of budget, resources and time required to build a robust, real-time collateral management system, firms also need to connect such an in-house solution to their settlement system, and both need to be able to communicate activity in real time. Adding to the complexity and heavy lifting, often the output of a firm's settlement system is a batch file. For firms with large bilateral books, their counterparty's efficiency in executing recalls is an operational aspect that needs to be considered — and, if there are issues in terms of timeliness when returning pledged collateral, that needs to be rectified.

Vendor solutions, like CollateralConnect, solve these considerations out of the box, along with offering faster time to market. It is a journey, and industry participants need a modular solution. One that starts with getting all of their data in one place, then adds on the ability to confirm eligibility accurately and in a fully digitised format. At that point, clients are in a good place where they can truly achieve their optimisation objectives.

Verhelst: Old, rigid systems, siloed business lines and technological debt, are some factors preventing firms from achieving optimal, real-time collateral management. It is a significant issue for the industry.

There are clear benefits to improving the visibility of both collateral positions and collateral exposures, and most of our clients are engaged in some form of optimisation project, with the overarching theme being a search for greater efficiency in their collateral management.

Whether it is minimising the impact of key regulatory ratios or reducing cost, we see a strong focus on improving access to data: securities reference data, eligibility matrices, collateral allocations, and on a timely basis. This stems from a desire for more control over the collateral allocation performed by our collateral management system, with many collateral givers now taking a more active role in determining which asset is used to cover which exposure.

How are ESG considerations being integrated into collateral eligibility criteria and valuation methodologies, and what implications does this have for traditional collateral management frameworks?

Corral: Environmental, social, and governance (ESG) considerations are another input that collateral processes need to consider — both from collateral eligibility and static data perspectives. The challenge to get this right is more on the static data providers than the collateral system. If the required data is available, CollateralConnect can design and execute against the appropriate collateral eligibility schedule.

Verhelst: We have seen increasing interest from some of our client base in using ESG criteria in setting their collateral profiles. This is mainly coming from asset managers or buy side clients who are seeking to implement changes in their investment policy into their collateral management activity as well. We have yet to see consistent market standards emerge in terms of what constitutes an ESG basket, making support very bespoke for every client.

There appears to be more interest in green repo. We have worked with LCH to launch a green basket on their €GCPlus GC repo service, which won the ESG Initiative of the Year at the Securities Finance Times Industry Excellence Awards in 2024. We expect interest in sustainable finance solutions to keep growing, in line with overall market trends.

Tymkowska: ESG considerations are increasingly being integrated into collateral eligibility criteria and valuation methodologies. This integration enables clients to meet sustainability standards, as well as the reporting transparency that comes with it. Traditional collateral management frameworks must adapt to incorporate ESG metrics to enhance the quality and reputation of asset holdings, aligning them with broader market sustainability goals.

Dammak: Integrating ESG considerations into collateral management is an emerging but increasingly important trend. As sustainable finance gains momentum, ESG is reshaping traditional collateral eligibility and valuation practices, with implications for how firms source, monitor, and manage collateral across trading, lending, and margining activities.

ESG integration into collateral eligibility criteria is being pushed by some buy side firms, and central banks — including the European Central Bank (ECB) and Banque de France — now restrict collateral eligibility to assets that meet minimum ESG standards, excluding issuers with poor environmental scores or exposure to controversial industries. Central counterparties (CCPs) and triparty agents are also starting to support ESG-aligned collateral schedules, including green government or corporate bonds.

Collateral schedules are being adjusted to exclude or penalise assets with low ESG ratings or exposure to fossil fuels, weapons, or human rights violations, but also to include green, social, and sustainability-linked bonds (SLBs), ESG-screened equity indices or ETFs, and issuers with high ESG scores from providers like MSCI, Sustainalytics, or S&P.

What role is DLT playing in enhancing collateral mobility and reducing settlement risk in securities finance transactions, and what are the key implementation barriers?

Dammak: DLT — including blockchain — has emerged as a powerful enabler for enhancing collateral mobility and reducing settlement risk in securities finance. By offering real-time, immutable, and transparent records of ownership and transactions, DLT helps address some of the most persistent inefficiencies in collateral management.

DLT allows firms to digitally tokenise securities and cash collateral, instantly transfer ownership without physically moving assets across custodians or jurisdictions, and enable intraday collateral substitution, recall, or reallocation via smart contracts.

Despite the potential, DLT adoption in securities finance faces several hurdles, like the interoperability with legacy systems — custodians, CCPs, trading platforms — that are not natively DLT-compatible, and the lack of common standards for token formats, messaging, and APIs.

Tymkowska: As a global custodian operating across multiple jurisdictions, State Street sees strong potential for DLT to enhance collateral mobility and reduce settlement risk. DLT can help streamline cross-border collateral movements by reducing settlement frictions, aligning market practices, and enabling more efficient collateral reuse across transactions and markets. DLT provides near real-time tracking of asset availability, which for State Street, as both a global custodian and triparty agent, improves transparency and accelerates collateral substitution and reallocation with reduced operational risk.

However, there are still meaningful implementation barriers. A key challenge is integrating DLT with existing legacy infrastructure, particularly in areas like trade capture, reporting, and settlement, without undermining the efficiencies DLT offers. DLT should

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Ed Corral
Head of Collateral
Pirum

interoperate with these systems without duplicating reconciliations or creating latency, and that remains a complex task. For us, a phased approach to implementation is essential. This ensures that innovation progresses in step with operational resilience, allowing the firm and its clients to scale securely and unlock the full value of DLT.

Verhelst: The market is still very much exploring the potential for DLT in collateral management. So far, no initiatives have managed to scale successfully, though there are some very innovative solutions out there.

While the technology has promise, the need for concurrent adoption by a network of parties, the competition for budget and resources with mandatory regulatory initiatives and market changes and the critical mass of liquidity in legacy platforms mean adoption remains challenging.

We remain optimistic about the potential for collateral tokenisation, as markets move more and more to 24/7 trading, the need for collateral management during expanded hours is likely to grow. Ledgers, and the smart contracts which can be run on them, could also deliver operational efficiencies in orchestrating complex collateral flows, such as multiple back-to-back collateral exchanges. We are currently conducting a study with the Boston Consulting Group (BCG) and Digital Assets Holding on how to best bring efficiency to global markets by combining tokenised collateral mobility and our experience in collateral management.

Patel: Tokenisation of assets can enhance collateral mobility across a number of real-world use cases and problem statements. Tokenisation of assets has been a way to introduce DLT into institutional financial services by representing ownership or control rights in a traditional asset on a blockchain, enabling transfer of those rights via smart contracts, which are self-executing contracts with the terms of the agreement directly written into code.

These contracts automatically enforce and execute the terms when predefined conditions are met, all while relying on the established legal and regulatory framework governing the underlying traditional asset. There are various platforms available today that support tokenisation use cases, though widespread adoption will take time. Nonetheless, there is meaningful value to unlock if there is enough buy-in from the community, and if key operational problem statements can be addressed.

Tokenisation can help with the mobility of traditional assets as collateral, operational efficiency more generally, and unlocking the value of trapped assets. Tokenisation of

“Data strategy is the backbone of the collateral optimisation ecosystem. A clear and effective data strategy is controlled, robust, and end-to-end focused.”

Sagar Patel
Head of Americas Tri-party
J.P. Morgan

traditional assets can be valuable in the sense that there is the ability to mobilise assets as collateral, without transferring them via standard settlement.

Tokenisation can remove settlement risk by leaving assets with the firm's custodian or transfer agent, and tokenising the asset in location, to be ultimately mobilised as collateral on the DLT platform. Eliminating market settlement at the custodian or transfer agent can reduce fails and cumbersome operational oversight of the settlements. Moreover, assets are being left in the same location, meaning that challenges with settlement cutoffs in many cases are eliminated. Utilising tokenised assets without the constraint of settlement cutoffs can lead to trading and settlement outside local market operating hours, allowing for ease of cross-currency trades.

Another example is unlocking the value of trapped assets or assets that are not being funded or optimally used as collateral. An example is high-quality liquid assets, such as money market funds (MMF), which are held with transfer agents and are not easily mobilised as collateral. Tokenisation and smart contracts enable parties to transfer MMF units as collateral via tokenisation without requiring the units to be redeemed for cash or otherwise transferred outside the transfer agent.

Implementing these new models into your existing operating model requires technological integration, especially for scalability, but first, it is important to gain comfort in DLT itself. As with any new technology, firms will need to conduct the appropriate due diligence on the technology and the specific platforms where assets will be represented. Needless to say, there will be a healthy amount of legal and compliance work to confirm these models and platforms work with existing legal frameworks. All of this requires an appropriate allocation of resources, which makes it a decision of priority against other initiatives firms may have. This is why having a tangible and valuable use case becomes one of the key factors in the decision to move forward and invest the time and resources.

Corral: As mentioned above, DLT is already playing a role. We see efforts to standardise every aspect of the securities finance and collateral management trade lifecycle as positive steps for the industry.

How are changing central bank policies and QT measures impacting the availability of sovereign debt as collateral, and what strategies are market participants employing to adapt?

Verhelst: There has been a marked improvement in the availability of sovereign collateral over the past two years. On one hand, large amounts of collateral previously at central banks to collateralise loans have been released, while the progressive reduction in asset purchase programs means that central banks are no longer hoovering up large portions of available supply. This has translated into a reduction in some securities lending activities, as tightness on some securities has faded.

In turn, increasing interest rates have revived the cash-driven repo market, driving higher financing of government securities through that product. Issuance of new government debt is expected to remain high, while there are doubts over the implementation of the next round of Basel reforms in both the US and EU. This will be key in determining dealer balance sheet capacity to keep intermediating financing markets, and correspondingly a determining factor in the evolution of collateral markets.

Tymkowska: Quantitative tightening (QT) has reduced the availability of sovereign debt in the secondary market, increasing pressure on the supply of high-quality collateral. In response, market participants are broadening their eligible collateral pools to include high-quality corporate bonds and covered bonds, while also turning to optimisation platforms to enhance allocation efficiency. Many are unlocking new sources of liquidity by mobilising fragmented inventory positions through pooled asset structures — particularly in jurisdictions with more flexible regulatory frameworks.

State Street's P2P repo solution offers direct access to alternative liquidity channels by enabling buy side firms to transact directly with each other, without relying on traditional dealer intermediation. We also offer pre-trade optimisation tools that play a key role in helping our clients identify the most efficient configuration of assets to pledge across their trade commitments, as well as strengthening asset mobilisation through our Collateral+ Triparty programme. Together, these solutions give market participants the infrastructure they need to stay agile and optimise collateral in constrained and fast-moving environments.

The need for innovation

Sabine Farhat, Murex's head of securities financing, lending and repo product management, shares a 2025 outlook for securities financing transactions markets

What are the settlement trends reshaping EMEA markets?

The scheduled shift to a T+1 settlement cycle in the UK, EU, and Switzerland by October 2027 will challenge the securities finance ecosystem. While this shift aims to boost settlement efficiency, it is far from straightforward.

European markets face operational, regulatory and infrastructural fragmentation, a consistent issue. The UK is likely to transition to T+1 before the EU and Switzerland, which could create visible discrepancies.

Key operations like recalls are still handled manually, often relying on email notifications.

Platforms like Murex are stepping in to streamline these inefficiencies and support seamless adaptation through proactive solutions.

How has Murex supported clients in adapting to T+1 settlement cycles?

Across the US, Canada, and Mexico, Murex clients have already experienced the benefits of sophisticated T+1 solutions. Designed to support multiple ISINs and settlement timelines ranging from T+1 to T+5, Murex's adaptable software helps businesses to flexibly manage and avoid the pitfalls of this fragmentation.

As the industry eyes Europe and challenges ahead, what I want to highlight is that the complexity in the European market — multiple central securities depositories (CSDs), divergent regulations and infrastructure needs, for example — makes this transition more intricate. That is why our software is designed to minimise operational friction and ensure our clients operate seamlessly across the UK and EU.

What impact will Basel IV regulations have on the securities finance industry?

The forthcoming Basel IV regulations are set to impact capital markets and the securities finance industry significantly. These regulations aim to enhance the quality and quantity of bank capital, improve liquidity requirements and reduce leverage. The regulations aim to foster a more resilient banking sector. Banks need to be prepared and equipped to comply with regulations.

With stricter capital requirements and standardised risk assessments, effective collateral management becomes even more important. Software providers must offer solutions that optimise the use of collateral and ensure high-quality assets are utilised efficiently to meet regulatory requirements.

Additionally, enhanced risk management capabilities are crucial for complexities introduced by Basel IV. Software solutions must offer real-time visibility into positions and exposures, enabling firms to manage risks more effectively and make informed decisions.

What regulatory changes are shaping the securities finance market?

Several key regulatory changes coming into effect by 2027 will redefine the securities finance market.

The mandatory clearing of US Treasuries is set to come into effect in December 2026 for cash transactions and June 2027 for repo transactions. This will require robust systems to manage membership, liquidity and legal agreements — the aim is increased market resilience.

In the US, the emergence of sponsored repo and agent clearing models is reshaping the market. These models facilitate central clearing, with sponsored services supporting 'Done-With' trading and agent clearing supporting 'Done-Away' trading.

Then, there is the need to meet the US Securities and Exchange Commission (SEC) compliance obligations to avoid litigation and ensure market stability.

This initiative is likely to influence European markets, as regulators consider similar measures to enhance market stability. Initially prominent in the US, sponsored repo models are also gaining traction in Europe.

And European ESG regulations are in flux. The European Commission is amending sustainability due diligence and reporting requirements under the Corporate Sustainability Due Diligence Directive and the Corporate Sustainability Reporting Directive.

Additionally, the Japan Securities Clearing Corporation (JSCC) has been pivotal in clearing and settlement processes enhancement. By assuming obligations from participants and providing settlement guarantees, JSCC ensures efficient and secure trading.

Regulatory frameworks will evolve to accommodate the unique risk profiles of tokenised assets as they become more commonplace. Digital assets offer enhanced intraday funding and cross-currency trade capabilities, key to T+1 settlement.

In the UK, the Financial Conduct Authority (FCA) is expected to finalise rules on cryptoassets by 2026, including regulations on stablecoins, custody, and prudential rules. This will shape how assets are integrated into traditional financial systems. Regulatory clarity will lead to increased participation in the crypto market.

Murex is ahead of the curve. We are enhancing offerings across risk management, collateral optimisation, and regulatory compliance. We are enhancing our partnership with leaders on tokenised assets funding and new models of clearing. We ensure our clients are fully equipped for the coming changes.

How are technological developments transforming collateral management?

The collateral management landscape is being massively impacted by advancements in AI, machine learning, and digital asset integration.

Digital assets are creating exciting opportunities in securities finance. The introduction of tokenised assets backed by real-world securities offers enhanced intraday funding and cross-currency trade capabilities — both critical to T+1.

As opportunities grow, so do complexities. Inventory management is an example. Differentiating between tokenised and traditional assets within your inventory is now a pressing concern. Murex's MX.3 platform provides the visibility and control that firms need to monitor risk, track ownership and manage collateral seamlessly.

What trends will define securities finance in 2025?

We see increasing demand for synthetic risk transfer trades. This trend is gaining traction among investment banks and buy side firms equally, and this is likely a defining trend for the year. Additionally, the use of fixed income bond replica total return swap (TRS) or standardised TRS on iBoxx or total return futures are becoming more prevalent. These instruments enable investors to efficiently gain or hedge exposure to the profitable indices, corporate bond and leveraged loan markets, benefiting from strong liquidity or standardised trading structures, or a combination of the two.

MX.3 helps firms accurately calculate risk and manage the lifecycle of these trades, ensuring seamless integration and compliance with evolving market standards.

I have already mentioned the growing adoption of digital assets. This is not an upcoming trend — it is happening now. Tokenised assets will soon become a standard part of the securities finance market. Murex solutions are ready to support this transformation.

Why is advanced technology essential for securities finance today?

The need for streamlined, scalable, flexible technology has never been greater. The days of manual processes and siloed systems are over. Firms need comprehensive software solutions that adapt to changing settlement cycles, integrate collateral of all kinds and automate regulatory compliance.

MX.3 is designed for this. The platform supports securities borrowing and lending, repo, and TRS. It enables firms to properly manage and monetise the balance sheet, centralise operations, improve efficiency and unlock new revenue streams, all while remaining compliant with evolving regulations.

How can firms stay ahead in the evolving securities finance markets?

By embracing innovation, automating workflows, and adapting to regulatory changes, firms can stay ahead of the curve with the right tools they need to thrive in this dynamic landscape.

We are well into 2025 and uncertainty has been a common feature. The demand for robust software solutions is clear.

Preparing for EMIR 3.0: Active accounts

Maciej Trybuchowski, CEO of KDPW_CCP, provides an overview of the upcoming EMIR 3.0 regulation as market participants prepare for new active account requirements

In order to increase the attractiveness and financial stability of EU clearing services, the European Commission is planning to introduce the European Market Infrastructure Regulation (EMIR) 3.0 package. This will mandate entities trading over-the-counter (OTC) derivatives to open so-called active accounts (clearing accounts) in EU-authorised central counterparties (CCPs) for eligible instruments cleared in euro (EUR) and Polish złoty (PLN) — which have been recognised as products having systemic importance for the financial stability of the European Union.

The introduction of the requirement for market participants subject to the clearing obligation to maintain active accounts in CCPs based in the EU, is intended to mitigate the risks resulting from a disproportionate concentration of OTC derivatives being cleared by EU market participants in third-country CCPs and, as a result, to reduce the relatively high exposure to these CCPs.

EMIR 3.0

The EMIR 3.0 regulation is currently awaiting formal approval by the European Parliament. It will be published next in the Official Journal of the European Union — most likely in December 2024 — and 20 days following the official publication, the provisions of the EMIR 3.0 regulation will enter into force. However, six months later — and possibly around the beginning of the second half of 2025 — the specific requirement to have an active account (clearing account) with an authorised EU-based CCP will come into effect.

KDPW_CCP is an authorised CCP headquartered in the EU, which clears OTC derivatives in EUR and PLN. This is why we are actively encouraging those entities covered by the new obligation to ensure advance compliance with EMIR 3.0 and to open a clearing account well before the close of the deadline.

Active account under EMIR 3.0

The EMIR 3.0 regulation introduces the obligation for EU market participants, who clear certain OTC derivatives in EUR and PLN in third-country CCPs, to open an active account — ie, at least one clearing account — either directly or indirectly in an EU-authorised CCP.

Active accounts must meet the requirements set out in EMIR 3.0. Additional requirements for active accounts will be set out in the regulatory technical standards (RTS) to the new regulation. The European Securities and Markets Authority (ESMA) will need to submit a draft RTS to the European Commission within six months of the entry into force of the EMIR 3.0 regulation.

The Commission will then approve the delegated regulations, translated into authorised separate languages (member states usually have three months to submit any comments). After voting on the provisions of these regulations, they will next be published in the EU Journal of Laws.

Who will be obliged to open an active account?

The obligation to hold an active account with an EU-authorised CCP — either directly or indirectly — applies both to financial counterparties and non-financial counterparties which:

- Are covered by the central clearing obligation;
- Are clearing members of a third-country CCP;
- Exceed the clearing threshold (Article 7a(6) of the regulation) for any of the instruments subject to the obligation to clear via an active account (interest rate derivatives denominated in EUR and PLN and short-term interest rate derivatives denominated in EUR).

If an entity is mandated to open an active account, it has six months from the date of becoming subject to the obligation to do so. Entities subject to the new active account obligation are encouraged to ensure compliance with EMIR 3.0 well in advance.

Active accounts in KDPW_CCP

KDPW_CCP fully complies with the requirements for EU CCPs and clears OTC interest rate derivatives denominated in EUR and PLN which will be covered by the active account requirement. KDPW_CCP ensures the clearing of the following transactions in derivatives in PLN and EUR (interest rate derivatives):

- Forward rate agreements
- Interest rate swaps
- Overnight index swaps
- Swaps

DIGIT: A new era for repo and collateral?

As the UK government moves forward with the Digital Gilt Instrument, Daniel Tison examines how it could reshape repo and collateral management

As an entirely new, digitally native, UK government debt asset, the Digital Gilt Instrument (DIGIT) will be a transferable security held on a distributed ledger technology (DLT) platform. Issued separately from standard government debt, it will initially be short-dated, marking a significant departure from traditional gilts. However, this vision remains in its early stages, as key questions around its implementation and impact are yet to be answered.

Utilising DLT, the DIGIT pilot aims to explore the potential benefits and challenges of digital securities within the UK capital markets. While the primary objective of the instrument is to enhance efficiency in the gilt market, its impact on securities finance — particularly repo and collateral management — could be substantial.

Glenn Handley, management consultant at SecFin Solutions, says: "The UK's new digital gilt initiative is more than just an experiment. It's a step toward fully digital capital markets. And it's set to transform repo and securities financing."

Green light for DLT

On 18 March, Chancellor Rachel Reeves confirmed the UK government's plans to advance the DIGIT pilot, following the initial announcement in November 2024.

"The UK is leading the way on digital innovation, and the creation of DIGIT will help to transform our world-leading capital markets sector and drive economic growth," said Reeves.

In a policy paper published on the same day, HM Treasury (HMT) acknowledges that DLT has the potential to transform financial markets, settlement, and trading, with a number of listed benefits.

This includes increased efficiency by making transactions faster, reducing the need for manual processes, and facilitating programmable assets. Providing a single, accessible record of transactions also enhances transparency. Furthermore, the paper highlights that reducing single points of failure leads to improved resilience across financial markets.

"DLT use cases are being explored with increasing ambition by financial centres across the globe and there is potential for significant growth in this area in the coming years," says HMT.

Matteo Sbraga, a partner at Clifford Chance who works within the firm's debt capital markets practice, has seen a sharp increase in the use of DLT for digital bond products over the past two to three years.

"There's quite a demand for DLT at the moment, although DLT-issued digital bonds still make up a very small proportion of the overall bond markets," he clarifies. "We are still in the exploratory phase, but the idea is that, hopefully, the DIGIT project will help to kick-start the DLT bond market in the UK in a more widespread fashion."

His colleague Diego Ballon Ossio, who spearheads Clifford Chance's fintech offering, agrees that DLT is becoming increasingly more prevalent, with companies developing their own platforms and some starting joint projects.

On the other hand, Handley argues that DLT has been around for some time, and its implementation by financial institutions has been slow.

"There is demand, but banks and other institutions have had quite a lot on their plate recently, so it's probably not been right at the top of the list," he states.

On that note, Sbraga adds: "Market participants generally accept that there should be some form of modernisation in the way that bonds are issued — the question is, how to achieve that modernisation? DLT is one way to streamline and make the bond issuance process more efficient, but there are also other ways to do it."

HMT and the UK Debt Management Office (DMO) completed their market engagement process on 13 April, gathering insights from technology providers and investors regarding the issuance, settlement, and trading of digital gilts.

The procurement phase is expected to progress in late spring 2025, with further developments anticipated through the Digital Securities Sandbox (DSS), which opened in the autumn of last year to provide a regulatory environment for testing DLT applications in financial markets.

It is expected that DIGIT will be issued on a platform within the DSS, and suppliers will need to obtain any necessary permissions from the Bank of England and the Financial Conduct Authority (FCA) to operate in the sandbox before they will be eligible for selection under the associated procurement.

Following the publication of a tender notice, the successful supplier will be selected in late summer. HMT and the DMO are open to considering solutions involving multiple suppliers working together to provide different elements of the service.

New technology, new opportunities

The government's current inclination towards DLT builds on UK Finance's digital gilt roadmap from April 2024, which provided a blueprint on how the UK could lead with a successful digital gilt issuance. Through its industry discussions, the trade association narrowed down the key benefits of issuing DIGIT.

"The combination of automated processes, a reduced need to pre-position collateral, and enhanced settlement could help investors manage gilt collateral more efficiently to meet margin calls in times of stress," says UK Finance.

Tokenised securities can be issued directly to the end-investor, which lowers costs by reducing the number of intermediaries involved. This shortens the traditional clearing and settlement cycles, reducing counterparty and systemic risk, and freeing up capital. Shorter settlement cycles may also reduce the amount of capital locked up in transactions, allowing for more dynamic allocation of assets.

> "There are trillions of securities that settle every day, and there's no need for them to settle every day if you can find a smart way around it, so I do think it will be adopted within five years or so."

Additionally, 24/7 trading facilities and the ability to use a digital gilt as high-quality collateral can improve liquidity by providing access to liquid assets for institutions. Digital gilts could allow for real-time collateral transfers, minimising the need for pre-positioning and unlocking additional funding sources.

UK Finance adds: "The above points represent clear benefits to embarking on the journey to launch the first ever UK digital gilt. Additionally, trust will be built among UK and international investors by showcasing momentum to transform the UK capital markets into digital-first markets, prioritising cheaper and easier ways of transacting."

Similarly, Handley recognises the significance of such benefits as market efficiency and cost reduction from this journey.

He says: "There are trillions of securities that settle every day, and there's no need for them to settle every day if you can find a smart way around it, so I do think it will be adopted within five years or so."

For Sbraga, the successful implementation of DLT for sovereign bonds would also give confidence to the market, which is necessary when any new technology is being introduced.

Regulatory and market structure challenges

Despite potential benefits, questions remain regarding the integration of DIGIT into existing collateral frameworks. Compatibility with CCP clearing structures, along with regulatory compliance with existing capital and liquidity requirements, appear to be key factors influencing adoption.

Sbraga says: "One of the key barriers at the moment to widespread adoption of DLT-based digital bonds is the lack of a generally accepted on-chain solution for settlement of the cash leg of a transaction, and that will affect use cases in the primary and secondary markets."

While the DSS provides a controlled environment for experimentation, broader regulatory considerations could affect the rollout of DIGIT. Market participants will need clarity on how DIGIT interacts with existing frameworks, such as the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR).

"There are pieces of legislation in place which make it a little more difficult to issue a digital gilt outside the DSS," Sbraga acknowledges, "and given that we've now got this brand new sandbox regime in place in the UK, it makes a lot of sense for the DIGIT project to go through that regime."

Going forward, he hopes that the UK government will introduce a regime that could be used on a more permanent basis.

Additionally, the potential coexistence of traditional and digital gilt markets raises concerns about liquidity fragmentation and pricing disparities.

Ballon Ossio points out: “The question is, can it then be used in the same way as other instruments? And this is where the sandbox is falling slightly short because that will depend on what the sandbox allows people to do, so then it’s up to the participants and the regulators to agree on where the boundaries lie.”

He is excited about the DSS project, but acknowledges its boundaries, which could also represent challenges in DIGIT adoption.

“Everybody we’ve been speaking to — lots of firms — wants to be a part of the project. Everybody is excited about the announcement, and they are keen to participate,” says Ballon Ossio. “But if you think about it, there is no way in which every market participant will be able to participate. And so, one of the challenges will be, how do we actually get everybody to be part of this?”

He explains that the DSS is designed to be a testing environment, which means volumes and quantities are limited.

“For true adoption to happen, you need to move away from this testing environment. You need to really start deploying in the normal course,” Ballon Ossio urges. “Until we clear this testing stage, we won’t be able to do that commercially.”

Catapulted to the spotlight

Despite promising potential, the success of DIGIT will depend on industry adoption and the willingness of market participants to integrate digital gilts into securities finance activities. If the pilot demonstrates operational efficiencies and risk reduction, it could pave the way for further innovation in sovereign debt markets. However, the transition period may present challenges, particularly in terms of technology integration and regulatory harmonisation.

Market participants agree that the successful adoption of digital gilts would be a milestone, moving the UK ahead of its competitors — but a quick and effective implementation is necessary.

“You don’t have the luxury of stretching it out too long,” states Ballon Ossio. “You want to test lots of environments and different ways of doing things, and you don’t want to necessarily enshrine the position of established players if there is new technology and new vendors with new ideas that are developing stuff. You want to foster innovation, but we need speed. We need this to happen quickly, and that’s tricky.”

In the words of UK Finance, “the UK has the opportunity to lead in this space, but it must act now”. In its report, the trade association concludes that the ultimate objective is to have an established digital financial market infrastructure to run a DLT-based platform for the end-to-end trade lifecycle.

> “You need all the market participants to come together in order for a transaction to be truly successful and for the DLT digital bond market to scale.”

Sbraga believes that collaboration across the industry will be key to achieving that, with all different parties on board.

“You can’t just have an issuer who wants to issue a DLT digital bond if you don’t have the investors or the market operators on board,” he explains. “You need all the market participants to come together in order for a transaction to be truly successful and for the DLT digital bond market to scale."

As the UK moves forward with this initiative, engagement between policymakers, financial institutions, and technology providers is crucial in shaping the future landscape of digital securities. The potential impact of DIGIT on securities finance remains an area of active discussion, with further insights expected as the pilot progresses.

Handley anticipates that the successful implementation of digital gilts could serve as a template for further innovation in financial markets. This could mean all asset classes, including corporate bonds.

Ballon Ossio concludes: “There’s no other jurisdiction that has done this, so we would certainly be catapulted to the spotlight.”

The intraday credit risk challenge

With securities financing tools playing an ever more critical role in optimising financial resources for banks, Dipak Chotai of JD Risk Solutions, and Richard Glen of HQLA^{X}, discuss intraday credit risk and the significance of DLT to mitigate this challenge

The increased demand for collateral — high-quality liquid assets (HQLA) in particular — driven by regulatory changes over the last decade, have intensified the importance of collateral transformation and the usage of securities financing tools.

Dipak Chotai, founder of consultancy JD Risk Solutions, notes that "HQLA holdings at European banks have increased by well over €1 trillion since the introduction of Liquidity Coverage Ratio requirements in 2015, and regulatory initial margin received is over US$250 billion more than in 2017". He emphasises that "the costs for banks would be immense without the ability for banks and dealers to transform and reuse assets and collateral".

The recent 'Credit Risk in Capital Markets' whitepaper — made in collaboration with JD Risk Solutions and HQLA^{X} — focuses on the specific challenges for securities lending transactions which execute Free of Payments (FoP), without settlement risk mitigation and suggests that the intraday credit exposures generated could be as high as US$119 billion.

HQLA^X and JD Risk Solutions identify two primary sources of intraday credit risk in securities lending transactions. The first arises from settlement risk, ie the risk of one party failing to deliver securities to another, and they suggest that this could generate as much as US$80 billion of exposure per day.

The second source identified is from potential future exposures (PFE), and "is the risk that may arise as a result of market moves at a future point in time". These market moves can impact each side of a securities lending transaction, via both a potential change or uncertainty surrounding the value of the collateral used, or the changing price of the lent securities themselves.

Credit risk is not a new topic to securities lending. The authors remind us in the whitepaper that it was credit risk fears that drove AIG's securities lending counterparties to return securities and request a return of US$24 billion of cash collateral in 2008, driven by AIG's investment strategy of cash collateral, where 65 per cent of these proceeds had been invested in mortgage-backed securities (MBS), asset-backed securities (ABS), and collateralised debt obligations (CDOs).

HQLA^X and JD Risk Solutions also highlight the challenges created by the current settlement infrastructure and how the importance of intraday credit extended by settlement agents to market participants is needed to prevent settlement taking significantly longer or consuming large quanta of pre-funded liquidity.

How regulation may respond

"Regulation often reacts to the factors that resulted in previous crises but, like energy, you cannot make risk disappear," says Chotai.

"There's no free lunch — parties ultimately transfer risk from one form to another, and from one party to another. Margin for uncleared derivative transactions has significantly helped reduce counterparty risk, especially for large investment banks, but as seen in September 2022 with the UK liability-driven investment crisis, liquidity risk and cost, especially for buy side firms, has increased substantially as a result."

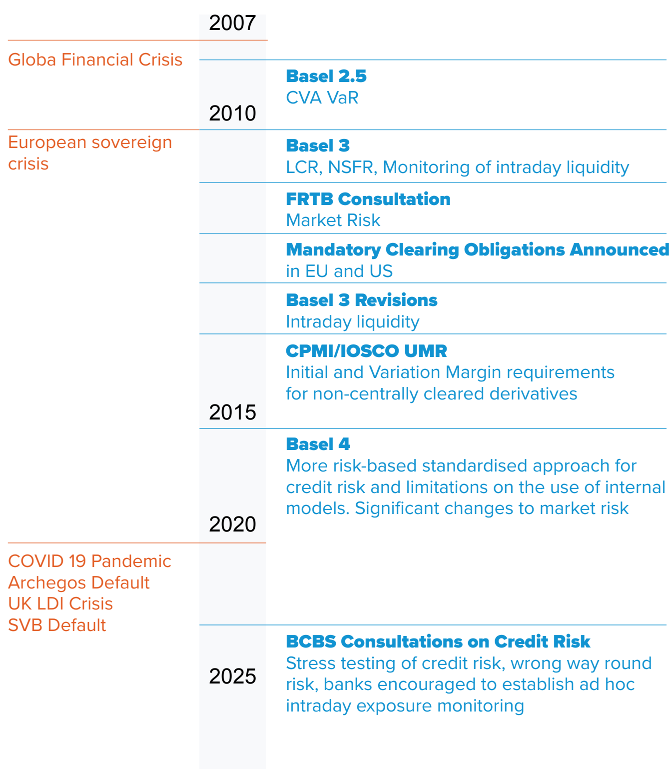
There is no place where this has been more evident than in the response to the global financial crisis of 2007-08, with the introduction of Basel 2.5 focusing on credit valuation adjustment (CVA) reserves, followed by Basel III, with a spotlight on liquidity and funding, and then finally, the introduction of mandatory clearing and margin requirements for uncleared derivative transactions.

The whitepaper notes that intraday risk management has become a more prominent feature for both market participants and regulators over the last decade and has been specifically discussed in the context of liquidity risk and market risk.

Following the recent default of Archegos capital management, a Basel Committee on Banking Supervision (BCBS) consultation focused on counterparty credit risk management, suggested that banks should establish intraday exposure monitoring, without imposing specific requirements on the banks themselves.

For Chotai, the question of what happens next with regards to intraday risk management, presents three options. "Firstly, regulators

Figure 1: Timeline of regulatory events impacting capital markets



could choose to do nothing more than reiterate the non-binding guidance that they have presented so far — unless of course a risk event occurs, contributed by intraday credit risk," he explains.

> "DLT can facilitate the development of new markets as it allows participants to agree on exact opening times and closing times to the nearest minute."

"Secondly, regulators and supervisors could monitor the risk more closely by requiring banks to prepare additional disclosures, as they have done to monitor climate risk. Finally, regulators could introduce more explicit capital requirements for intraday credit risk to incentivise mitigation."

The additional capital requirements in the third scenario are not insignificant. "Our analysis suggests that the capital requirements for borrowing securities in securities lending transactions could attract an additional US$48 billion of risk-weighted assets in aggregate across the banking sector using a standardised approach," says Chotai.

With these requirements, the question remains as to why regulators have not yet focused on intraday credit risk.

Chotai responds: "There are two main reasons. Firstly, there has not yet been a significant event where intraday credit risk has been the primary cause. We didn't have intraday liquidity requirements until around a decade ago, as there was less sensitivity to intraday liquidity risk until that point in time.

"Secondly, and until recently, there weren't any options to mitigate intraday credit risk in securities lending transactions without reducing volumes and deleveraging the system or substantially changing how financial market infrastructure operates around the world."

What technologies bring

"The key challenge is that the systems and infrastructure were never designed to work in this way — it's like using 100-year-old copper telephone lines to deliver high-speed internet," Chotai highlights.

In agreement, Richard Glen, solutions architect at HQLA^{X}, says that today, the fragmented regional custody network obliges large global banks to physically move securities across the different venues, locations and timezones to meet their collateral obligations. He believes this results in imprecise, costly and inefficient collateral management with real bottom-line costs.

Glen continues: "Solutions using distributed ledger technology enable banks to mobilise pools of securities without cross-custodian movements, and to achieve simultaneous ownership exchanges using either delivery-versus-delivery or delivery-versus-payment as a part of a books and records update.

"This helps to mitigate the risk of creation of intraday exposures during the settlement process itself as well as enhancing the resilience of a banks' operating model."

The whitepaper also notes that distributed ledger technology (DLT) can help to solve a number of post-trade risk scenarios, in addition to mitigating credit risk. It allows for instantaneous and synchronised exchange of ownership at precise moments in time.

"Settlement time is becoming the new settlement date," adds Glen. Historically, trades had a specific value date on which they were due to settle and firms had no control as to when securities or cash would be delivered or received. However, by using DLT, firms can specify the exact point in time at which a transaction should settle, making the process more certain and predictable.

"DLT can facilitate the development of new markets, such as intraday DvP repo, as it allows participants to agree on exact opening times and closing times to the nearest minute," Glen says.

The whitepaper further explains how DLT helps firms to optimise their inventory management workflows, irrespective of the deposit location or asset type.

"The technology can support a multitude of funding and financing arrangements from securities lending or repo to the posting of initial or variation margin," Glen confirms. "The way DLT can help solve optimisation challenges is not only expected to reduce the operational burden of cross-venue settlement and their associated costs, but also to impact balance sheet consumption in a positive way through these enhanced optimisation capabilities."

In terms of market adoption and future vision, the whitepaper underlines the importance of industry collaboration and interoperability.

In his conclusion, Glen comments: "Distributed collateral ledgers offer interoperability by design. Recent cross-chain end-to-end experiments and trials have successfully demonstrated these capabilities, enabling market participants to create an ecosystem where atomic settlement of traditional and digital assets may be supported without restricting freedom of choice."

Richard Glen
Solutions architect
HQLA^{X}

Dipak Chotai
Founder
JD Risk Solutions

Credit Risk in Capital Markets

Read the whitepaper here

In this whitepaper, HQLA^{X} and JD Risk Solutions discuss the critical role that securities financing tools play in optimising financial resources for banks and the intraday credit risk that arises from the settlement process and market fluctuations altering the value of securities or collateral.

It explores how regulation has evolved around intraday risks, how regulators may look to address intraday credit risk, and the impact this may have on bank financial resources. Finally, the firms assess how emerging technologies such as DLT could offer solutions to mitigate these risks.

How stock market volatility fuels securities lending, but uncertainty stifles it

For beneficial owners, intermediaries, and borrowers alike, navigating this line is essential. Volatility is the engine of opportunity, says Matthew Chessum, director of securities finance at S&P Global Market Intelligence

Securities lending thrives in a dynamic market environment. One of the most counterintuitive yet well-established truths in the industry is that stock market volatility is often good for securities lending activity. At the same time, persistent or unpredictable uncertainty, especially when rooted in geopolitical tensions or economic instability such as trade tariffs, can have a chilling effect. Understanding this dichotomy is essential to grasp how securities lending fits into the broader financial ecosystem.

Volatility breeds demand

Stock market volatility reflects rapid price swings and elevated trading volumes, which tend to coincide with heightened investor sentiment — bullish or bearish. For the securities lending market, this spells opportunity. When prices fluctuate widely, short sellers become more active, borrowing stocks to capitalise on downward price moves. As demand to borrow shares rises, beneficial owners — such as pension funds and asset managers — can earn higher fees by lending securities, especially hard-to-borrow names that are in high demand due to market speculation.

This increased lending activity not only drives revenues for asset holders and lending agents, but also supports market efficiency. Short selling, which is enabled by securities lending, helps correct overvalued prices, enhances liquidity, and contributes to price discovery. In volatile conditions, short sellers often emerge in greater numbers, trying to profit from what they perceive as temporary mispricings or overheated valuations. This behaviour generates both directional and arbitrage-based borrowing demand, particularly in sectors experiencing significant upheaval or investor scrutiny.

The sweet spot: Predictable turbulence

There is a "sweet spot" in the market where volatility is high but bounded within a relatively known risk environment. For example, earnings seasons, interest rate announcements, or expected shifts in monetary policy can inject volatility without destabilising the entire system. In such cases, market participants can model risk with reasonable confidence, and securities lending thrives.

During these periods, lendable assets become more valuable due to higher utilisation rates, while borrowers are more willing to pay elevated fees for access to specific names or sectors. Lending desks can also engage in more sophisticated collateral optimisation strategies, as turnover increases and spreads widen.

Uncertainty is the enemy of risk appetite

However, not all turbulence is created equal. When volatility stems from uncertainty — particularly geopolitical risk or erratic economic policies — the effect on securities lending is often negative. Uncertainty makes it difficult for market participants to price risk or form reliable expectations, leading to reduced risk appetite and a contraction in borrowing and lending activity.

A prime example of this is the impact of trade tariffs and protectionist economic measures, which inject a layer of unpredictability into global supply chains and corporate earnings forecasts. When governments impose tariffs without clear timelines or escalate trade tensions without diplomatic resolution in sight, investors struggle to gauge the implications for sectors like manufacturing, technology, or agriculture. This environment leads to broad-based de-risking rather than targeted short selling, depressing both demand for securities borrowing and willingness to lend.

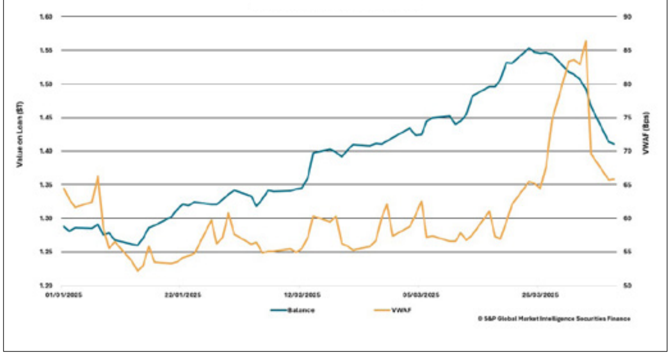
Furthermore, geopolitical risks — such as military conflicts, sanctions, or political instability — can cause liquidity to dry up and funding markets to tighten. In such times, lenders may recall loans, increase collateral requirements, or withdraw from the market entirely, fearing counterparty or settlement risk. This behaviour further suppresses activity and reduces revenues for all involved parties.

The negative impact of uncertainty on securities lending activity can be evidenced by the rapid decline in securities lending balances across all equities between 25 March and 8 April. Balances not only fell by over US$150 billion during this period but volume-weighted average fees also dropped by over 20 basis points over an even shorter five-day period (3 April – 8 April).

Risk aversion and regulation

Periods of sustained uncertainty also tend to coincide with heightened regulatory scrutiny or changes to capital and liquidity requirements. In such climates, market participants — especially prime brokers and banks — become more conservative in their risk frameworks, curtailing balance sheet usage for securities lending and repo activities. Reduced intermediation by these key players limits the ability of borrowers to access securities, stifling activity even further. Regulatory responses were recently seen in response to the heightened market volatility as Taiwan, Thailand, and Turkey implemented varying degrees of short sale bans to stabilise their financial markets.

Figure 1: Balances vs VWAF - All Equities



Navigating the fine line

Securities lending flourishes when volatility is driven by tradable information and investor sentiment, rather than opaque and unpredictable risks. Volatility, when anchored in known catalysts, promotes active trading strategies that require access to borrowed securities, thereby supporting the securities lending ecosystem. On the other hand, uncertainty — especially when rooted in geopolitical strife or economic disruption like trade tariffs — undermines confidence and suppresses market participation.

For beneficial owners, intermediaries, and borrowers alike, navigating this line is essential. Volatility is the engine of opportunity — but only when the road ahead can be reasonably mapped.

From cryptocurrency to securities trading

Tom Rawson, demand generation lead at Sharegain, speaks with Daniel Tison about his job in retail securities lending and the growth that comes from tackling live challenges

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

Since my late teens, I have had a keen interest in financial markets more broadly. My first real exposure came from trading whatever money I had saved from odd jobs during the Covid market reversal in the early 2020s. It quickly became an obsession, fuelled by forgiving market conditions that rewarded an enthusiastic, naïve investor caught up in the hype of cryptocurrencies and the electric vehicles revolution.

After graduating from university and realising markets can move down as well as up, I joined Sharegain in November 2022 — coincidentally, the same month Bitcoin hit multi-year lows. I started as a junior research analyst, drawn to Sharegain's mission of tackling an esoteric part of finance and increasing access for retail investors.

Just three months later, I moved to the trading desk, where I have remained since.

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

Overseeing and executing securities borrowing and lending (SBL) transactions with our counterparties across multiple asset classes and jurisdictions makes for an extremely varied and engaging day-to-day.

I enjoy the constant pursuit of optimising our lendable inventory — it is always a rewarding feeling bringing new client assets into the programme, knowing the work I am involved in drives real value, both for our clients earning passive income and for the broader ecosystem we are striving to build.

Beyond the trade side, I get to work closely with the product and developer teams, with a big focus on optimising for scale, minimising manual workflows, and enhancing data insights to allow us to make more informed decisions on the desk.

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

At Sharegain, my growth and development have been largely supported through on-the-job training and cross-functional collaboration. My ability to move internally from the role of a research analyst to the trading desk in such a short time is a testament to the firm's commitment to supporting the team's personal growth.

As a company in its growth phase with a relatively small headcount, Sharegain benefits from a culture of openness and knowledge transfer, with new joiners encouraged to get exposure to all aspects of the business.

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

It is often said that the financial industry is built on antiquated systems with rigid hierarchical structures. As a young professional, the idea that you must 'earn your stripes' for several years before you can begin to effect real change in the business can be off-putting.

In my experience at Sharegain, from day one, you are encouraged to bring new ideas to the table and challenge existing processes. You are then given full responsibility to ensure the implementation and success of your own initiatives, regardless of age or tenure.

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

My goals and aspirations are driven in large part by where my curiosity and interests align. This early on in my career, I look to embrace continuous learning, and as with any intellectual pursuit, it is much easier to stick to when you have a passion for what you are doing. My role at Sharegain has and continues to be a great outlet for me to exercise my curiosity.

Specifically, I would like to continue my work into automation and increasing efficiencies on the desk. With the explosion of generative AI over the past couple of years, it has never been easier to start coding.

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

My advice to young professionals entering the financial industry is to seek out roles where you can learn by doing. Prioritise being a practitioner — much more fun than drafting PowerPoint presentations all day!

From my time on the trading desk at Sharegain, I have learnt that real growth comes from tackling live challenges, like managing trades in volatile markets or collaborating with tech teams to solve operational gaps. Theoretical knowledge has its limitations, whereas becoming a practitioner will help build the instincts and resilience you need to succeed. ■

Tom Rawson

Prior to joining Sharegain as a junior research analyst in 2022, Tom Rawson attained a first-class honours degree in business from the University of Leeds. During his studies, he developed a keen interest in financial markets, trading crypto and stocks in his spare time.

Having grown up in the countryside, Rawson enjoys getting out of London on weekends, taking long walks in nature. He also likes boxing and reading non-fiction books.

Dyson to step down

The International Securities Lending Association (ISLA) has confirmed that after 12 years with the entity, Andrew Dyson, CEO of ISLA, has decided to step down from his role.

He will remain in the role for the foreseeable time and will continue to work closely with the ISLA management team and board on delivering the agreed near-term strategy for the Association.

At the same time, he is supporting the board in the formal process to identify his successor, with the assistance of an external executive search agency.

Dyson first joined ISLA in 2013 as chief operating officer, later taking on the role of CEO in 2016.

Over his tenure, he has been instrumental in providing and implementing a strategic vision for the Association, leading to its continued growth in both size and geographical footprint, ISLA says.

Provable Markets adds O’Neill

Provable Markets has hired Shannon O’Neill as director of global operations.

In her new role, O’Neill will be instrumental in leading business operations and driving scalable growth for the team.

Based in New York, she has more than a decade of experience in sales, working at companies like Cadre, EquityZen, and Artivest.

She joins from Hazeltree, where she served as chief of staff for a year.

NBF welcomes Murphy

National Bank Financial has onboarded Nick Murphy as associate director within the securities lending trading team.

Based in Toronto, Murphy brings nearly seven years of experience in financial services to his new role.

He joins from BMO Financial Group, where he most recently served as associate, global equity finance at BMO Capital Markets.

He began his career as a global risk analyst at RBC Capital Markets.

Murphy holds a master’s degree in financial mathematics from McMaster University.

SWIAT appoints Miederer

SWIAT, a fintech company specialising in the development of blockchain software for an open, decentralised financial market infrastructure, has appointed Felix Miederer as chief operations officer.

The firm says Miederer will play an important role in the strategic development of SWIAT, with the aim of further strengthening its position as a market leader in DLT infrastructure and blockchain software for regulated financial institutions.

Miederer brings more than 20 years of experience in the banking and financial services industry to his new position, where he will provide expertise in digital transformation, as well as the development of IT strategies and infrastructure in banks and financial service providers.

Most recently, he was a member of the executive board and the board of directors of the Luxembourg subsidiary of private bank Donner & Reuschel, where he was responsible for the Department of Information Technology & Organisation and for the further development of the IT strategy.

Seibold joins Chainlink

Chainlink Labs has hired Frank Seibold as head of banking and capital markets for the Americas.

Based in New York, Seibold brings more than three decades of experience in financial services to his new role.

He joins from Pirum, where he spent more than one year as head of commercial development.

Previously in his career, he served as global head of strategic relationship management and head of cash markets sales at CME Group for more than four years.

Between 1996 and 2008, he worked for Reuters under various titles, including global head of wealth management.

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