Securities Finance Times

The primary source of global securities finance news and analysis

Issue 377 13 May 2025

Securing new opportunities

RBC Investor Services on the changes in beneficial owner demands and its new strategy for shaping the future of securities finance

Canadian Depository for Securities modernises post-trade infrastructure

The Canadian Depository for Securities (CDS), a subsidiary of TMX Group, has upgraded its foundational clearing technology, as part of its post-trade modernisation initiative.

The new platform will replace certain legacy systems related to clearing and settlement, as well as depository and entitlement payments, and will power the Canadian Collateral Management service.

John McKenzie, CEO of TMX Group, comments: "The launch of the new platform advances our core technology capability and ultimately strengthens Canada's ability to compete for global investment. TMX's investment in clearing technology also delivers on our enterprise-wide commitment to ensuring these critical systems are efficient, resilient and adaptive."

Kevin Sampson, president of CDS, adds: "The successful completion of the complex post-trade modernisation project is the culmination of a great deal of hard work by a dedicated team here across clearing and technology divisions."

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BNY obtain headquarters license in KSA

BNY has received a regional headquarters licence from the Ministry of Investments in Saudi Arabia (MISA).

The new headquarters in Riyadh will provide strategic, administrative, and corporate services for BNY in the Middle East.

BNY's existing asset servicing solutions delivered for clients in the Kingdom of Saudi Arabia (KSA) include global custody services, global risk solutions, custody FX, and institutional accounting under a Capital Markets Authority (CMA) licence.

Hani Kablawi, head of international at BNY, comments: "The KSA is delivering on its Vision 2030, and we will continue to bring BNY's expertise across the financial lifecycle to help the KSA achieve its ambitions."

Apart from the KSA, BNY also has clients in the United Arab Emirates, Kuwait, Qatar, Bahrain, and Oman, providing access to global markets, building and delivering local market infrastructure capabilities, and supporting the development of the Gulf Cooperation Council's capital markets landscape.

FINRA request 10c-1a compliance dates extension

The Financial Industry Regulatory Authority (FINRA) has formally requested an extension from the US Securities and Exchange Commission (SEC) on the remaining compliance dates for Rule 10c-1a.

As part of the proposal, covered parties must begin reporting to a registered national securities association (RNSA) on 28 September 2026, while RNSAs must begin public dissemination of the data on 29 March 2027.

FINRA emphasised the need for more time to build and test infrastructure, onboard firms, and ensure accurate reporting and data integrity.

ISLA Americas explores DLT and tokenisation in new white paper

The International Securities Lending Association (ISLA) Americas has published a white paper exploring the implications of distributed ledger technology (DLT) and tokenisation for liquidity, collateral management, and market accessibility.

'From Boom to Bust: Considerations for the Securities Lending Industry', developed in collaboration with EY, aims to provide a blueprint for how the securities lending market should evolve to keep pace with emerging technologies.

According to the authors, Mark Nichols, Brendan Maher, and Seha Islam from Ernst & Young, the securities lending space is poised for transformation from DLT and tokenisation, opening the door for incumbents to re-evaluate strategies to incorporate this new technology into their approach and products.

However, the report also highlights risks associated with this transformation, such as disintermediation, increased competition, and demanding operating models.

The authors conclude: "The future of securities lending is not merely about adopting new technologies; it's about fundamentally rethinking and restructuring securities lending markets to thrive amid rapid changes.

"Businesses must heed the lessons of past failures, adapt proactively, and engage in collaborative efforts to ensure they are not left behind as the industry evolves."

South Street Securities merges with GX2 Spread Markets

South Street Securities has completed its merger with GX2 Spread Markets, after receiving regulatory approval from the Financial Industry Regulatory Authority (FINRA) and the National Futures Association (NFA).

The two broker-dealers are now consolidated under the South Street Securities entity, as GX2 Spread Markets transitions the operation of its interest rate algorithmic trading platform for outright, spread, and basis strategies into South Street Securities.

James Tabacchi, president and CEO of South Street Securities Holdings, comments: "Bringing GX2 Spread Markets into South Street Securities represents the next chapter in our mission to scale strategically while honouring our standard of quality, relationship-driven service."

This follows an announcement from January 2024 of South Street Securities Holdings acquiring GX2 Spread Markets, the broker-dealer, as well as GX2 Systems, a fintech firm that engineers electronic trading solutions for the fixed income and futures markets.

GX2 Systems continues to design, develop, and deploy new execution algorithms and strategies, while aiming to improve customer access to execution through web application and API.

The experienced team at GX2 Systems will help expand South Street Securities' footprint in the primary dealer, large international dealer, and hedge fund ecosystem, according to the firm.

David Jaberg, president and CEO of GX2 Systems, says: "Joining forces under one broker-dealer unlocks new opportunities for our team and clients.

"It allows us to emphasise the growth of our voice execution desk and client coverage by utilising the latest technology developments and improvements within our global, algorithmic execution platform."

BrokerTec reports highest overall volume month on record

April was BrokerTec's highest overall volume month on record, with US$1.01 trillion in average daily notional value (ADNV) transacted across US Treasuries, European government bonds, as well as US and EU repo.

This figure, derived from the firm's central limit order book (CLOB), dealer-to-client (D2C) request-for-quote (RFQ), and streaming platforms, represents an increase of 31 per cent year-on-year (YoY) and 6 per cent month-on-month (MoM).

On 7 April, BrokerTec set a new single-day volume record of US$1.2 trillion in ADNV traded.

Additionally, April observed nine consecutive days over US$1 trillion ADNV from 3 to 15 April, while surpassing US$1 trillion 10 times in the month.

In the US repo market, BrokerTec saw an ADNV of US$378 billion, up 28 per cent YoY.

According to John Edwards, global head of BrokerTec at CME Group, this was a result of the strong volatility in the outright market, many open positions, specials activity, and tax month.

"New issuance and quantitative tightening continued boosting our volumes in April," Edwards added.

US Treasuries ADNV for April was US$151 billion, up 39 per cent YoY, as Treasury markets digested news from the incoming tariff rollout plan.

Erik Norland, chief economist at CME Group, comments: "US Treasuries had a volatile and choppy April that finished with a significant yield curve steepening."

In Europe, ADNV for BrokerTec EU repo grew 9 per cent YoY to €321 billion in March.

Edwards explains: "During April, the European Central Bank continued its monetary policy easing.

"Interest rates for the euro area were reduced for a seventh time by 25 basis points, taking the deposit rate from 2.50 per cent to 2.25 per cent, effective from 23 April."

Tullett Prebon joins ISLA

Tullett Prebon has joined the International Securities Lending Association (ISLA) as its first inter-dealer broker (IDB) member.

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Headquartered in London, Tullett Prebon is an intermediary in global financial markets, covering equities, securities financing, and repo markets.

"Their deep market expertise and active facilitation of liquidity across these segments make them a highly valuable addition to the ISLA community," says the association.

Tullett Prebon is part of the TP ICAP Group, which also includes ICAP, PVM Oil, and COEX Partners.

ISLA adds: "We look forward to collaborating more closely with the IDB community, which plays a vital role in supporting liquidity and ensuring the efficient functioning of the securities financing ecosystem."

DTCC reports record volumes across services amid market volatility

The Depository Trust & Clearing Corporation (DTCC) has announced "significant achievements" after reaching new peak values and volumes across platforms and services during recent market volatility.

The National Securities Clearing Corporation (NSCC) achieved a new peak value of US$5.55 trillion on 9 April — a 6.4 per cent increase from the previous peak of US$5.22 trillion on 20 December.

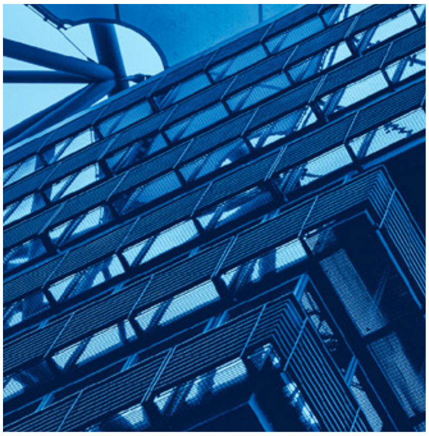
The NSCC also reached a new peak volume of 545 million transactions on 7 April, representing a 33 per cent increase from the previous peak of 409 million transactions during the 'meme stock' event on 27 January 2021.

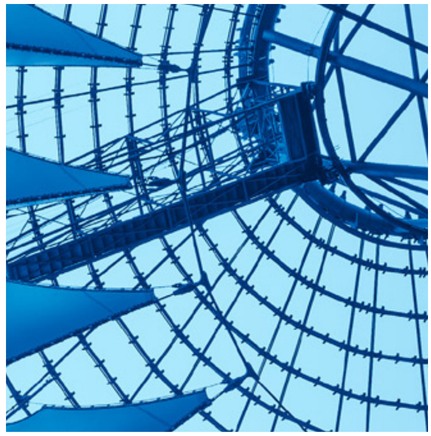
Lynn Bishop, managing director and chief information officer at DTCC, comments: "Our platforms undergo rigorous and continuous performance and resiliency testing to ensure they can handle peak volumes.

"At the same time, we continually invest in our infrastructure to ensure we remain able to manage market stresses and effectively deliver services."

As previously announced, the Fixed Income Clearing Corporation (FICC) hit a new peak of more than US$11 trillion on 9 April, representing an 8.88 per cent increase from the prior peak of US$10.47 trillion on 28 February.

Additionally, the FICC reached a new peak





volume of 1.206 million transactions on 9 April, which is a 23 per cent increase from the previous peak of 978,000 transactions two days prior.

Overall, Q1 2025 monthly FICC volume averages were 4 per cent higher than the previous quarter and 32 per cent higher year-over-year.

Tim Cuddihy, managing director and group chief risk officer at DTCC, adds: “We continually monitor our risk management framework and margin models to assess risk reduction, performance, and predictability across a wide range of market conditions.

“All is done with one thing in mind — the safety of the markets, firms, and underlying investors.”

Global securities lending revenue grows

The global securities finance industry generated US$856 million in revenue for lenders in April, up 1.18 per cent year-on-year (YoY), according to EquiLend Data & Analytics.

Interdealer financing activity, characterised by securities transactions between broker-dealers, increased 3 per cent YoY, generating US$249 million in revenue for April.

Global equity revenue decreased by 2 per cent as a drop in fees of 13 per cent offset an 11 per cent increase in balances.

Despite an increase in market volatility due to ongoing tariff negotiations and increased attention on the Federal Reserve's forward rate guidance, EquiLend says lending revenue for US stocks continued to fall by 15 per cent, with average fees declining 24 per cent YoY.

The decline in fees suggests hedge funds may be taking a more cautious approach, the firm adds, with many long-short equity managers sitting on the sidelines or reducing

short positions amid the unpredictable market environment.

Equity lending revenue in EMEA was roughly flat YoY as fees were down 19 per cent compared to April 2024, while balances increased by 19 per cent.

The Netherlands led the EMEA region with a 40 per cent YoY gain. The surge in revenue was driven by a substantial increase in fees of 21 per cent and an increase in loan balances of 9 per cent.

In APAC, South Korea and Hong Kong securities lending markets outperformed YoY with revenue gains of 382 per cent and 121 per cent, respectively.

This surge in South Korea was driven by a 241 per cent change versus the prior month, when the country lifted the ban on short selling at the end of March.

Every other APAC market saw a decline in revenue month-over-month. The top earner in APAC was Korean equity LG Energy Solution, generating just over US$8 million in revenue for the month for lenders.

Global fixed income revenue increased 12 per cent YoY as government debt lending revenue improved by 13 per cent and corporate debt by 11 per cent.

While average fees for both government and corporate debt fell by similar margins, 9 per cent and 13 per cent respectively, the volume of bonds on loan increased substantially by 15 per cent and 25 per cent YoY.

The surge in fixed income lending was largely driven by increased demand for high-quality collateral amid overall market conditions and volatility.

Additionally, corporate bond lending saw heightened activity in the high-yield segment as investors positioned for potential credit spread widening in anticipation of economic slowdown concerns.

The top five earning securities in the global lending markets in April were SGS, Volvo, LG Energy Solution, Pacific Biosciences California, and Rocket Companies. The five securities in total generated US$42 million in revenue for lenders in the month.

OCC average daily loan value up

The Options Clearing Corporation (OCC) has recorded a 8.4 per cent year-on-year (YoY) increase in average daily loan value for securities lending trades, generating US$174.9 billion for April.

Total securities lending transactions cleared on the OCC platform for the same month were up 32.1 per cent YoY to 325,116.

In terms of all futures and options cleared through the organisation, the total volume increased 24.3 per cent YoY to 1.2 billion contracts for April.

OCC also experienced a 28.8 per cent YoY hike in ETF options contracts for the month to 557.2 million, and a 23.2 per cent YoY rise in equity options contracts to 604.9 million.

However, cleared futures contracts declined by 4.7 per cent YoY for the month to 6.4 million. Index options volumes were up 11.5 per cent YoY to 107.9 billion for April.

Repo ADV climbs 28.2% YoY

Repo average daily volume (ADV) traded on the Tradeweb platform increased 28.2 per cent year-over-year (YoY) to US$766.7 billion for April.

The record global repo trading activity was supported by increased client participation across the platform.

In the US, growth was driven by the lasting effects of the Fed’s balance sheet unwind, combined with balances still remaining relatively low at the reverse repo facility.

While in Europe, volumes and market activity continued to grow and were primarily driven by volatility caused by the current geopolitical landscape, according to Tradeweb.

The global operator of electronic marketplaces for rates, credit, equities and money markets reports that the ADV across all asset classes for the month of April reached US$2.7 trillion, up 38.6 per cent YoY.

US government bond ADV was up 41.5 per cent YoY to US$290.4 billion. European government bond ADV grew 29.1 per cent to US$58.9 billion.

For swaps and swaptions, ADV climbed 10.1 per cent YoY for the month to US$523.8 billion. Total rates derivatives ADV also increased, rising 22.1 per cent YoY to US$971.9 billion.

In credit markets, fully electronic US credit ADV was up 9.2 per cent YoY to US$8.8 billion, while European credit ADV grew 18.4 per cent YoY to US$2.7 billion.

Securing new opportunities

The RBC Investor Services' team offers their perspective on the changes in beneficial owner demands, where they see opportunities in the Canadian and emerging global markets, and how the firm's new strategy is shaping the future of securities finance

Where do you see the future of securities financing solutions and opportunities for beneficial owners?

Kyle Kolasingh: We see two promising avenues for growth in securities financing — emerging markets and the rise of the retail investor.

The securities lending market is already fairly mature, with more than four decades of development. But many emerging markets and asset classes remain untapped from a financing perspective. As global economies expand, the need for liquidity increases. As a result, there is significant untapped or under-utilised value to be found in markets like the Philippines, Indonesia, the Middle East, India, and China.

It will take time for these markets to enter the securities lending space, as infrastructure, tax, and regulatory bodies converge with an aim to enhance liquidity and bolster market functionality. In the shorter term, we see incredible alpha opportunities in Brazil. This is a good example of the time it takes burgeoning markets to come online. With more than a decade of discussions and market-building activities already underway, the possibility of the Brazilian market opening to foreign lending players has never been closer.

The second key area is the retail investor. No longer a novelty to the securities lending arena, the rise of retail assets in the lendable pool continues to grow and can no longer be overlooked — despite the added operational complexities. In the US, the retail segment of lendable assets has become a key driver of returns due to the fact that this is now where hard-to-borrows (i.e. securities in short supply) hide.

In Canada, the fully paid lending market continues to grow with an increasing number of wealth managers tapping the lucrative possibilities of securities lending to gain a competitive advantage. That said, the technology required for scaling this business has not been adopted as widely in Canada as in the US or Asia. At RBC Investor Services (RBCIS), we are optimistic about the opportunities for wealth managers and investors, and have embedded the development of these access points into our multi-year modernisation plans.

How do you balance the needs of beneficial owners with those of your global borrowers?

Chris Barrand: The geopolitical landscape presents both opportunities and risks, as we have seen before with supply chain disruptions and, more recently, with trade restrictions. It can create opportunities for securities lending but, at the same time, expose lenders to increased counterparty risk. It is all about finding the right balance; beneficial owners are striving for better returns and data transparency while our borrowers need automation and cost-effective accessibility to securities.

Keeping up with evolving regulations is key to making this all work, especially across the different regions. Whether it is the changing landscape in Europe around withholding tax entitlement, or adhering to market guidance in specific APAC markets to meet revised short sale measures, it is important to have constant dialogue with your beneficial owners to manage their expectations.

There is always interest from our clients to work with us to understand and reassess the impact of these changes in each market, and to evaluate and determine the risk-reward. As well as working closely with our respective industry associations, our global footprint has enabled us to build and maintain diverse borrower relationships to ensure we are well-positioned to adjust and find solutions.

How has the Canadian market performed so far in 2025?

Arthur Kolodziejczyk: Broader market conditions have fluctuated, driven by global trade tensions and sector-specific challenges stemming from uncertainties in trade relationships, especially with the US. The Canadian fixed income sector has been marked by volatility influenced by domestic and external market dynamics. Although the demand for provincial bonds varies, there is stable interest in benchmark Canadian sovereign bonds, particularly at the front end of the yield curve. The excess supply of liquidity in the cash market has led dealers to cover their positions in repo and benefit from both lower rates and minimal haircuts, thereby allowing cash to be raised at favourable rates.

As the economic outlook softens, prompting the Bank of Canada to lower interest rates, yields have declined, leading to an increase in sales and a general reduction in client holdings. With the start of the rate-cutting cycle, clients have had to explore alternative avenues for generating alpha. Consequently, term lending has remained stable amid various regulatory requirements and funding needs, with higher rates available for clients willing to accept collateral further down the risk spectrum.

While the Canadian securities finance market has seen some growth in bond investments and trading activities, the issuance of equities has encountered obstacles, and overall market sentiment remains cautious amid global economic uncertainties. The Canadian securities lending market is poised for significant revenue and portfolio optimisation opportunities for beneficial owners who collaborate closely with their agent lenders to leverage timely developments.

Emerging markets outperformed the larger securities lending markets in 2024. Where do you currently see value on the global horizon?

Barrand: Based on our client holdings, we see South Korea, Taiwan, Thailand, and Turkey presenting the most value. In recent years, South Korea has generated lucrative returns for lenders given the directional opportunities it presents. However, short sale bans have curtailed activity at times, with the most recent one put in place from November 2023 to June 2024 before being extended to March 2025.

Following the introduction of stringent revisions to short selling rules — including a term of limit of 90 days, rollable three times to a maximum of 360 days, and revised guidance on the recall process — the short sale ban has been lifted, although the general sentiment is that lending activity may not experience an immediate spike as market participants ensure they are well-positioned to adhere to the new measures.

We see Thailand as having the potential to add significant value to lending revenues, given the positive outlook for the Thai economy. However, the proposed changes by the Securities and Exchange Commission, Thailand (SEC), where foreign investors need to adhere to the same rules and regulations as local investors, require further attention. That said, the standout market in the region from a revenue-generation perspective is Taiwan, where borrower demand continues to exceed lendable supply, driving lending fees higher.

Demand is driven by directional strategies associated with the technology sector, with dominance from stocks in the semiconductor, artificial intelligence, and chipmaker spaces. Although the returns for lenders are attractive, it is imperative to have robust measures in place, pre-sale notifications in particular, to ensure market recalls can be issued in good time. The recent tariffs imposed by the US have led to the Financial Supervisory Commission introducing temporary short sale measures, which at present are being rolled weekly. The hope is that market conditions stabilise in the coming weeks to ensure this is not a longer-term approach.

Despite the ongoing economic crisis in Turkey, characterised by a plummeting Lira, soaring inflation, and rising borrowing costs, the market presents directional opportunities while also increasing exposure to market risk. The lifting of the short sale ban in January 2025 (following its introduction in February 2023) led to a sharp uptick in borrower demand at competitive fees, which was encouraging for lenders. But the decline in the benchmark index following the arrest of an opposition leader on 23 March led the Capital Markets Board of Türkiye to impose a short sale ban until 25 April, which at present has been extended another month. If the political uncertainty improves, then we hope the ban is short-lived.

What is keeping your clients up at night and how does the RBCIS team help?

Kolasingh: Reducing costs while maintaining performance is always top of mind — but in today's environment, the added layer of an unpredictable global market has amplified concerns. Clients are anxious about a range of concerns, including unwelcome portfolio volatility, heightened risk management demands, revenue generation, the lack of a specials market, and an evolving tax and regulatory landscape. Each of these is converging to create an increasingly important need for data, and data accessibility, from beneficial owners. This is particularly true in periods of persistent volatility and unpredictability, such as now. Clients are ultimately seeking to mitigate risk, generate returns and fulfil their own client obligations — putting more pressure than ever on securities lending agents to deliver.

On one hand, increasing market volatility brings directional opportunities and new trade structures on which to capitalise; but on the other, evolving regulatory pressures and tax changes can make it trickier to navigate. In my eight years in the securities finance industry, the pace of change has increased exponentially. Large-scale regulatory shifts — like the Securities Financing Transactions Regulation (SFTR), once considered a once-in-a-decade regulatory change — now feel like part of an annual cycle.

> “No longer a novelty to the securities lending arena, the rise of retail assets in the lendable pool continues to grow and can no longer be overlooked.”

Kyle Kolasingh
Head, Market Services Solutions
RBC Investor Services

For beneficial owners, understanding the market dynamics they are lending in is key, and having access to in-region expertise is essential in today's environment. To help our clients, we not only leverage our position as Canada's largest bank but also rely on our global trading and execution desks in London and Singapore, and our support teams in Kuala Lumpur to ensure our clients are comfortable with the impact and pace of change across the industry.

Furthermore, we have embarked on a multi-year technology and operational modernisation of our architecture and processes to deliver smarter financing solutions and insights. This transformation — set to be completed this year — will enable us and our clients to benefit from higher automation rates, faster onboarding, and a future-proofed technology stack enabling faster response to regulatory and market changes. Our clients will also benefit from more frequent intraday data and reporting capabilities, and a higher degree of portfolio optimisation through the integration of performance data in our trading execution.

How do you assess the Canadian securities lending operational environment? How is it advancing, and what is weighing it down?

Kerry Phippen: The Canadian securities lending operational environment is advancing, but it is not without its challenges. Technology is a double-edged sword; when new capabilities are plugged into old legacy systems, marrying them together can be a challenge. Meanwhile, we all continue to face heightened cyber risk, shorter timelines, and increased regulation. We did a phenomenal job with T+1 in North America, but we now need to be thinking about T+1 globally. Efficient tracking and processing of corporate actions and income could be improved industry-wide. Proxy is another sensitive topic where securities lending is only one chapter in a fractured industry process.

Each of these areas can be supported by effective data use. We are in an environment where expectations are changing fast, including demand for accurate data in real time. Billing accuracy, timeliness, and STP is another area, although we do have post-trade tools to help. Lastly, we are still a people business, and attracting the right talent is key to our success. We are competing for employees who want to learn, work well under pressure, enjoy client service, understand risk, and embrace change. Securities lending remains a great place to connect the dots across all operational functions: we touch everything from onboarding to settlements, collateral management, corporate actions, risk, oversight, and fee billing.

RBCIS has been focusing on its technology upgrades and integration into its operating environment. How are your uses of data and technology evolving?

Phippen: A focus on technology upgrades and integration significantly

"We are in an environment where expectations are changing fast, including demand for accurate data in real time."

Kerry Phippen
Head, Market Services Operations
RBC Investor Services

enhances operations and our use of data in several ways. This is where our securities lending modernisation plans come into full effect. As the market and the industry advances, we are ensuring we are prepared and one step ahead — whether it is integrating data in a smarter way or achieving a higher degree of STP. This ensures RBCIS is well-positioned for the future of our industry. Improved efficiency and data integration across the lifecycle support scalability, increased flexibility, and cost efficiency. We are predictive rather than reactive, with enhanced decision making and greater opportunities for innovation. We can manage sophisticated rules and schedules, supporting client flexibility, but maintaining standardisation from an operating model perspective.

To highlight the importance of data and integration, we have built a Business Intelligence Pod within our operations team, whose focus is to quickly translate our key data requirements into functional, real-time dashboards and reports. Examples include income tracking and productivity scorecards that deliver predictive analytics, providing actionable insights and performance monitoring. The pod gives us incredible flexibility to prioritise, pivot, and deliver solutions that enhance our operations and reduce risk.

As a member of CIMPA, how do you assess the securities finance and collateral management infrastructure in Canada?

Kolodziejczyk: The Collateral Infrastructure and Market Practices Advisory Group (CIMPA) has enhanced collaboration among various stakeholders to foster a more efficient ecosystem where standard market practices can be discussed and developed. This increased transparency and connectivity are leading to a more effectively functioning market. The strong collaboration across different sectors, supported by market infrastructure, can provide practical and innovative solutions for participants. As a result, we anticipate an improved operating environment, with reduced costs and complexity, enhanced liquidity, and new business opportunities emerging.

As co-head of securities finance, what are you focusing on in 2025 and 2026?

Barrand: Internally, we are focused on modernising our securities lending trading platform to replace multiple in-house legacy applications with a best-in-class SaaS solution that is modern, innovative, and functionality-rich. This initiative will deliver multiple enhancements across the business and revolutionise our global trading and operational capabilities, enhancing both the client and borrower experience. It will also enable us to meet various upcoming regulatory requirements, including T+1 in Asia and Europe, US SEC Rule 10c-1, the Bank of Canada mandatory fail fee, and Basel III Endgame.

Keeping up with evolving regulatory changes is a major priority, especially

> "Beneficial owners are striving for better returns and data transparency while our borrowers need automation and cost-effective accessibility to securities."

Chris Barrand
Co-head, Securities Finance
RBC Investor Services

in Europe and Asia, where proposed changes to market infrastructure can force change overnight. At RBCIS, we need to stay agile while working closely with our counterparts at the International Securities Lending Association (ISLA) and the Pan Asia Securities Lending Association (PASLA) to ensure we are well-positioned to navigate these challenges. Although T+1 has been successfully introduced in Canada and the US, it will naturally be a different challenge for Europe and the APAC region due to the increasing fragmentation of European politics and the lack of homogeneity across the APAC region. Both regions are less harmonised than North America given the variances in operational structures.

In Europe, the introduction of the Central Securities Depositories Regulation (CSDR) in 2022 removed a lot of legacy operational obstructions and encouraged participants to address ongoing settlement challenges. What is more, the introduction of vendor trade risk monitoring and recall management solutions have contributed to improving every touch point within each trade lifecycle, leading to better settlement efficiency. If we continue to see European countries simultaneously align to the proposed date of October 2027, the region should be able to accommodate the change without too much disruption. But in the APAC region, more may be required given the time zone difference, prefunding requirements and differing operating structures. Naturally, the move to T+1 will heighten the operational risk — therefore any complexities with current market infrastructures will need to be addressed ahead of the move.

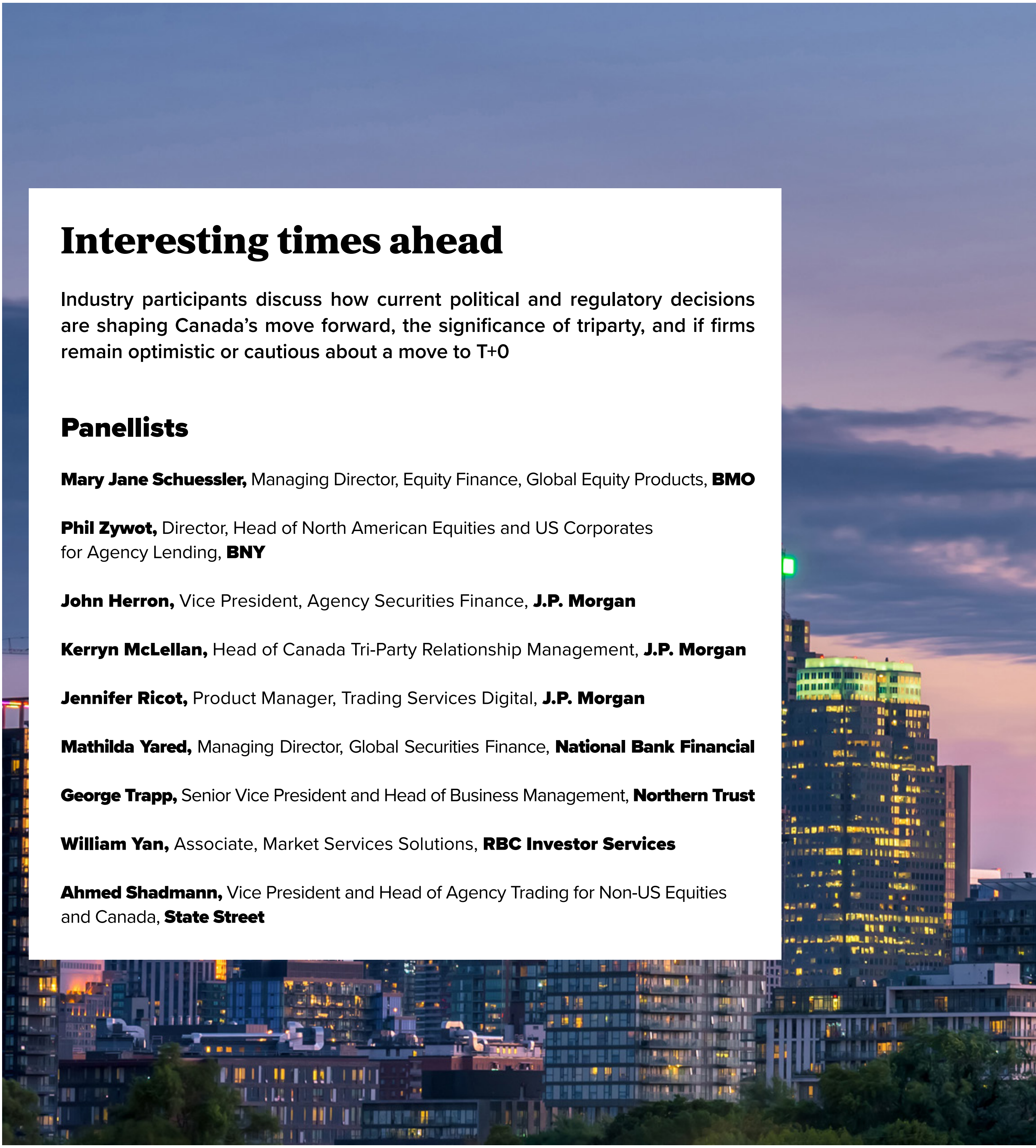
What are some of the advantages of having such a diverse securities lending leadership team? What are the benefits of the different perspectives and areas of focus?

Kolodziejczyk: A leadership team with diverse backgrounds in securities lending brings numerous benefits that enhance an organisation's overall success and adaptability. By leveraging a wide range of skills and experiences, the RBCIS team can effectively manage and drive the business forward while navigating the changing operational landscape and risks. One of the primary advantages of a diverse team is how different viewpoints can facilitate efficient problem-solving, foster creativity, and help us to capitalize on nuanced trade structures across all regions.

Diverse leadership also strengthens risk management by bringing together a well-rounded understanding of regulatory, operational, financial and reputational risks tied to securities lending. We also benefit from 24/5 trading coverage across 34 markets, supported by teams in Toronto, London, and Singapore. By considering risks from multiple perspectives, our team is equipped to make better decisions, manage crises effectively, navigate complexities, and stay competitive through innovation and adaptability.

"The Canadian securities lending market is poised for significant revenue and portfolio optimisation opportunities."

Arthur Kolodziejczyk
Co-head, Securities Finance
RBC Investor Services



Interesting times ahead

Industry participants discuss how current political and regulatory decisions are shaping Canada's move forward, the significance of triparty, and if firms remain optimistic or cautious about a move to T+0

Panellists

Mary Jane Schuessler, Managing Director, Equity Finance, Global Equity Products, **BMO**

Phil Zywot, Director, Head of North American Equities and US Corporates for Agency Lending, **BNY**

John Herron, Vice President, Agency Securities Finance, **J.P. Morgan**

Kerryn McLellan, Head of Canada Tri-Party Relationship Management, **J.P. Morgan**

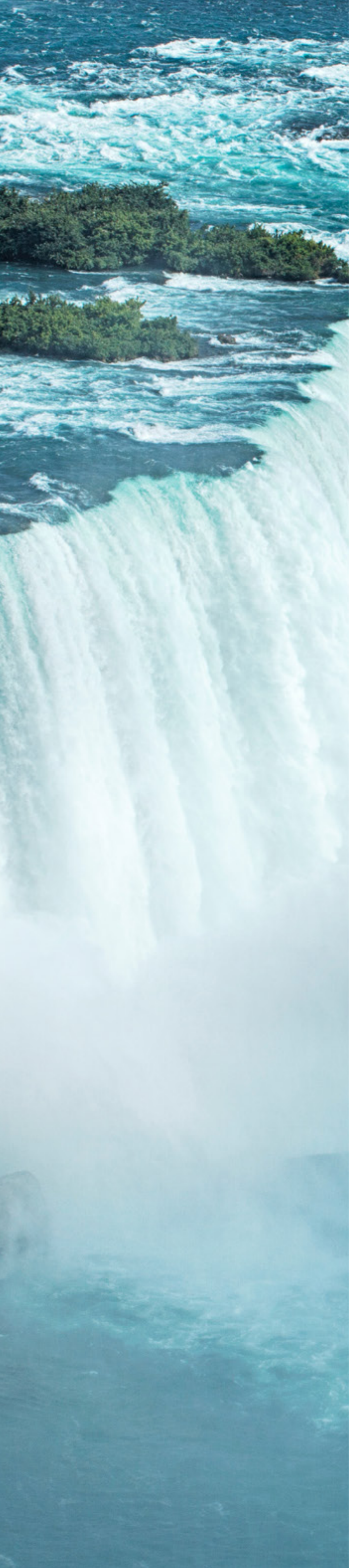
Jennifer Ricot, Product Manager, Trading Services Digital, **J.P. Morgan**

Mathilda Yared, Managing Director, Global Securities Finance, **National Bank Financial**

George Trapp, Senior Vice President and Head of Business Management, **Northern Trust**

William Yan, Associate, Market Services Solutions, **RBC Investor Services**

Ahmed Shadmann, Vice President and Head of Agency Trading for Non-US Equities and Canada, **State Street**



How do you assess the performance of the Canadian securities finance market over the past 12 months?

Mathilda Yared: The Canadian securities finance market has been relatively quiet over the past 12 months, with a notable decrease in revenues year-over-year (YoY). This downward trend, also observed in the US market, resulted from lower fees and reduced lending activity across various asset classes. In the general collateral space, balances shifted to lenders that could support wide collateral schedules, focusing on trade stability, automation of execution, and ease of settlement. Liquidity and maintaining tight capital requirements were prevalent themes as well.

Overall, retail clients and hedge funds' demand was weaker YoY, resulting in decreased loan balances, utilisation, and revenues. In the warm and hard-to-borrow space, we saw some bought deals and corporate action names, but most of the specials were sub-CA$5 names. Generally, we observed an increase in short interest for Canadian ETFs as market volatility resulted in some ETFs moving into the special space, especially those that are harder to create. Specials, overall, came from demand for cryptocurrency, lithium mining, and electric vehicle-related securities, but few persisted as long investors squeezed out shorts. In the dividend space, one notable change was the discontinuation by Canadian banks of the discount previously afforded to their stocks in the dividend reinvestment space.

Finally, while National Bank of Canada was the first to offer it, more institutions are now active in fully paid lending in Canada. This is making it easier to short sub-CA$3 names as there is more supply and levels do not rise as steeply as they would have in the past.

Phil Zywot: The securities finance market showed resilience in 2024 despite several changes. The shift from T+2 to T+1 settlement cycle went smoothly. Cash reinvestment spreads exceeded expectations due to the interest rate easing cycle, which offset the Bankers' Acceptances (BA) cessation in June 2024. Balances were pressured by counterparties' capital constraints, but there was strong demand for equity financing, upgrade trades, and collateral diversification.

In the banking sector, regulators raised the Domestic Stability Buffer (DSB) in 2023, and Canadian banks made several acquisitions resulting in most introducing discounted Dividend Reinvestment Plans (DRIPs). As these acquisitions were completed and banks shored up capital requirements, banks discontinued their discounted DRIPs, reducing lending revenues for agent lenders in Canada. The market has recently faced global volatility due to trade wars, leading to a reduction in equity financing trades.

William Yan: The market has demonstrated remarkable resilience over the past 12 months, maintaining a steady course amid turbulent global conditions. Despite well-known macroeconomic headwinds — trade tensions, geopolitical instability, and a shifting interest rate environment — the market has remained relatively stable.

Equity lending activity held firm in Q1 2025, demonstrating YoY stability despite a 28 per cent drop in specials revenue, according to S&P Global Market Intelligence. Notably, lending demand remains concentrated in the energy, materials and healthcare sectors, where elevated lending fees reflect persistent borrower interest. That said, equity issuance has encountered some headwinds, contributing to a cautious but active lending environment. On the fixed income side, the Canadian market has proven particularly resilient; the Bank of Canada's pivot toward rate cuts supported increased sell side demand, particularly in benchmark Government of Canada bonds and on the front-end-of-the-curve. A reduced central bank balance sheet has prompted counterparties to explore alternative funding strategies, contributing to steady term lending across collateral types, especially for lenders offering flexibility on collateral schedules.

At the same time, beneficial owners are cautious and pragmatic, balancing risk and reward while adapting their programmes to the fast-changing landscape. Those optimising their portfolios and embracing timely market insights are positioned to capitalise on further risk-adjusted returns.

George Trapp: Northern Trust saw overall borrower demand continue to be strong for the past 12 months. Only in the last quarter, specifically with the geopolitical environment injecting volatility, did we see demand wane for general collateral (GC) — those securities that have the least amount of demand and are typically used for financing. Demand from borrowers continues for specials and Canadian DRIP trading, and our clients that hold these Canadian assets continue to benefit.

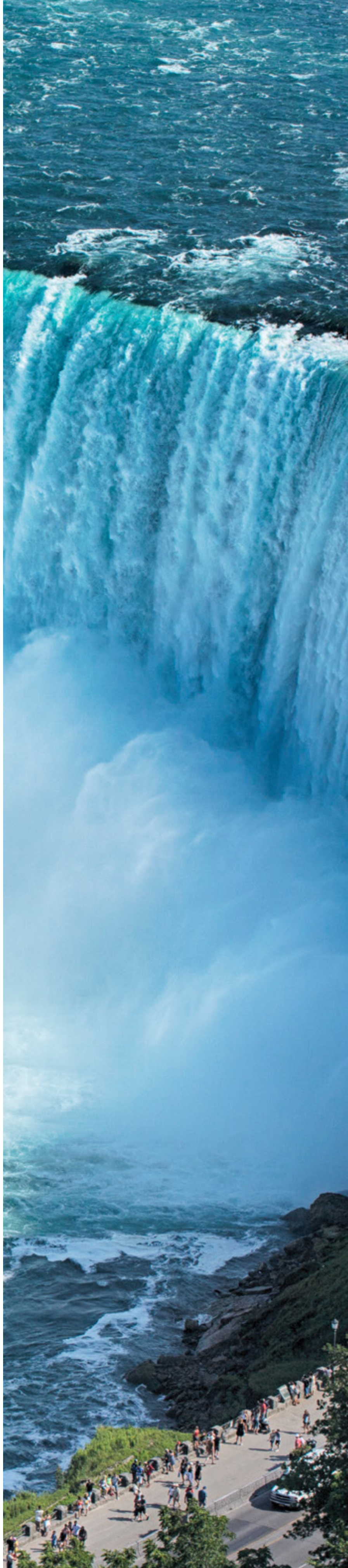
Canadian government, provincial and corporate bond demand was spread across both the open and term loan space. We saw demand in various tenors for these trade types, but did see a bias towards shorter term evergreen structures as borrowers continued to seek more efficient means to manage their balance sheets and long inventory. High-quality liquid asset (HQLA) collateral upgrade trades continued to be a key component driving revenue in 2024 as financial institutions looked to optimise their balance sheets by pledging a wider array of non-cash collateral including equities, corporate and convertible bonds. Additionally, there was strong demand centred around the Canadian government bond benchmark issues.

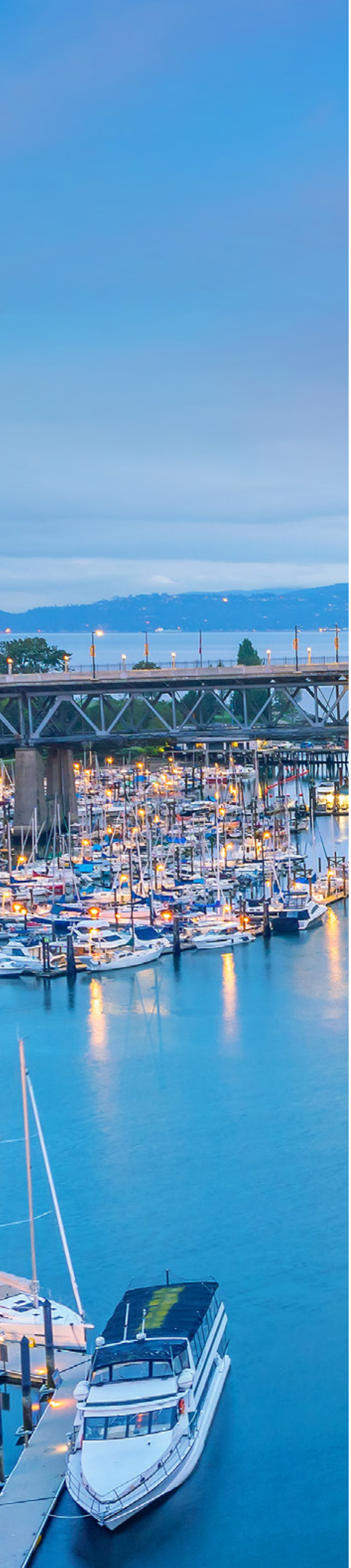
A significant amount of revenue generated from Canadian equities was driven primarily off the back of specials and DRIP trades. Clients with holdings in Canadian dollar-DRIP names saw healthy utilisation and positive returns in 2024. The DRIP trade continues to yield attractive returns as demand remains strong with borrowers looking to participate and compete for supply.

The Canadian equity specials market did experience a slight increase in average fees over the previous year as several equities continued to generate demand among the borrower community and produced significant gains overall. Since mergers and acquisition activity has been lackluster, Canadian equity specials demand was largely driven by individual directional issues. The specials tend to be very name specific and associated with industries where there has been volatility in underlying share prices. The specialty healthcare, pharmaceuticals and raw materials or mining sectors were prominent in driving revenue in Canada's securities lending markets. In addition, we experienced sustained borrower activity across the energy sector as demand rose with increased volatility in the oil markets and higher financing costs.

John Herron: Canadian securities lending demand has been robust over the past 12 months for general collateral and hard-to-borrow trades. We are observing widespread interest from all of our broker-dealers. The borrowing community requires a diverse Canadian asset pool to cover all of their needs. The industry is closely monitoring changes in tariff policies.

Collateral flexibility remains a crucial factor in achieving utilisation, as borrowers' collateral needs can vary over time. Common borrowing demand themes include various risk-weighted asset (RWA) types, collateral types, and offer rates. The main equity sectors of interest are





cannabis, financial (including bitcoin-related companies), and industrial/mining. Automation capabilities are pivotal, as borrowers seek to quickly execute trades. Especially in the new T+1 environment, the business has made significant strides in terms of efficiency and the speed at which trades are completed and shifted from one source to another. Ease of settlement is also critical, and the industry is constantly seeking new ways to improve the Canadian settlement processes.

Ahmed Shadmann: In 2024, the Canadian lending market faced several challenges in the specials segment of the book but was bolstered by dividend trades. It is a similar story on a global basis as well, with 2024 global securities lending revenue down 10 per cent YoY. In the Canadian market, industry equity revenue dropped 2.2 per cent YoY and fixed income revenue decreased 15.3 per cent over the same period, per DataLend. A myriad of reasons contributed to this shortfall.

In the beginning of the year, the Canadian government repealed a long-standing tax incentive for Canadian investors called the 'dividend received deduction' which allowed Canadian banks — and other Canadian institutional investors — exemption from tax on dividends issued by Canadian companies. For the lending programme, this impacted term trades which were unwound over the course of the year.

The specials environment was muted with sporadic resurgence of demand for names in the cannabis and electronic vehicle (EV) sector. The mining sector directly related to EV, such as lithium mining, saw names elevate to the 'specials' category but that quickly fizzled as long investors squeezed out shorts. The high interest rate environment saw demand pick up for REIT names, particularly names with a high debt load. However, that too fizzled out by mid-year as the central bank commenced its rate-cut cycle. The latter part of the year was mostly quiet in the specials segment as markets rallied and shorts were mainly forced to unwind trades.

The first four months of 2025 can be best termed as tumultuous to jittery, the uncertainty and confusion around global trade caused by US tariffs saw wild market swings. Bond yields plummeted, stock prices nose-dived and short investors went on a holding pattern to wait and see where the dust settles. Justified, given positional and directional uncertainty caused by market noise and headlines by just one man.

With Canada recently exploring the triparty space, how do you view the country's post-trade infrastructure as it relates to collateral and triparty?

Zywot: On the agency lending side, triparty has been well established for several years in Canada and is regularly used by both agent lenders and borrowers to manage equity collateral positions and requirements. Having said that, Canada still processes the majority of fixed income collateral movements bilaterally. Connectivity and efficiencies across triparty platforms, vendors, agent lenders, borrowers, and the Canadian Depository for Securities (CDS) has room for improvement. In this space, Canada has lagged its global peers as the country, at times, can be slower to adopt change.

Recently, we have seen important improvements to the triparty repo infrastructure through the TMX to connect cash and collateral providers for more liquid markets. We hope to see efficiencies in current fixed income repo trading processes and automation which should allow for expanded collateral trade types and structures.

Mary Jane Schuessler: Canada and specifically the TMX have recognised the need for operational efficiency, enhanced liquidity, risk mitigation within the securities finance landscape and have made significant improvements recently in moving the Canadian marketplace forward. The market in general is still behind as it relates to collateral and triparty, however, the building blocks are there and Canadian market participants are keen to advance to a more global standard and are actively working to do so.

Yared: Canada's post-trade infrastructure benefits from its single-depository setup. Unlike Europe, which has multiple international central securities depositories (ICSDs) and CSDs, and the US, which has the Federal Reserve System and Depository Trust Company settlement, all securities in Canada are CDS settled with the potential for Canadian Derivatives Clearing Corporation or Continuous Net Settlement clearing.

The Canadian Collateral Management Service (CCMS) will strengthen the Canadian ecosystem and its resilience by simplifying the end-to-end domestic collateral management process. The Bank of Canada's decision to use CCMS supports this view. It is important to note that large Canadian institutions have been using internationally established triparty platforms for cross-border transactions and bilateral settlement for domestic transactions.

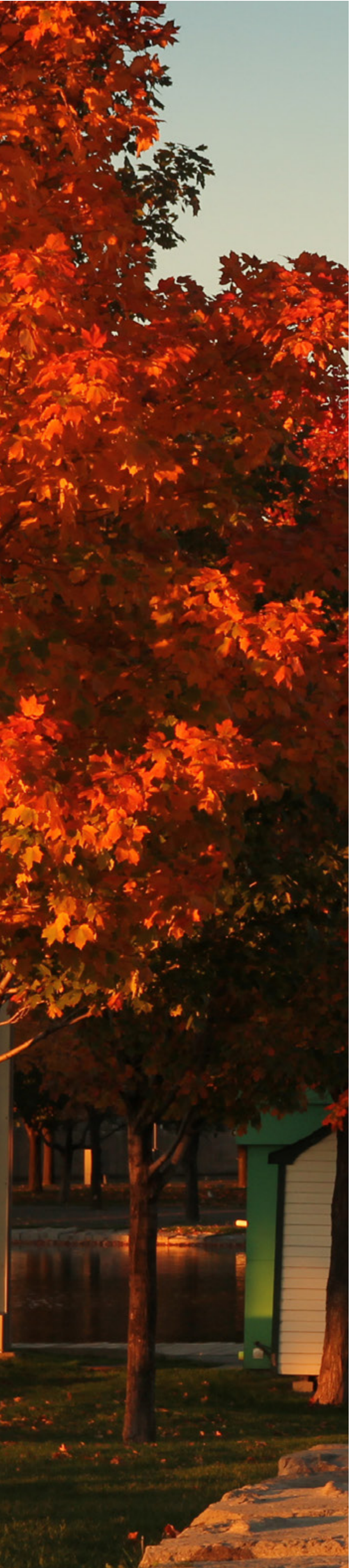
Although the process has been functioning well, it excluded smaller institutions from entering the collateral market given the complexity of operations involved. We believe that the upcoming Canadian triparty may introduce new participants into the collateral market.

Kerryn McLellan: The Canadian market's triparty space, while flourishing with recent development, has its roots tied back to 2007 with the introduction of a non-cash securities lending escrow supporting a major Canadian bank's agency lending desk. Since then, triparty services have dramatically expanded in support of securities finance, Uncleared Margin Rules (UMR) and even the first Canadian dollar repo transactions.

This growth highlights the dynamic evolution of Canada's post-trade infrastructure, powered by a robust network of firms, vendors, triparty agents, and local market CCPs and depositories. Each plays a vital role in optimising collateral management and boosting operational efficiency as markets evolve and capital-efficient structures become crucial. Firms are advancing their operational processes and systems, vendors are nearing comprehensive optimisation solutions, and triparty agents are broadening their support to include diverse trade types and legal structures. Meanwhile, Canadian market infrastructure is advancing technologically.

We are thrilled to provide tailored triparty services designed to meet regional needs, particularly in accessing supply and liquidity that are often challenging due to legal, operational, and regulatory barriers. By leveraging innovative legal constructs and operating models within traditional market infrastructure (e.g. triparty), we enable firms to effectively deploy previously trapped assets, enhancing market fluidity and efficiency. Canada is well-positioned to navigate the complexities of the modern financial landscape, fostering long-term success and innovation.

Shadmann: Canadian securities lending trades collateralised through a triparty agent is not a new phenomenon. We have been active participants for multiple years with multiple counterparties using third party triparty agents. What is different about the CCMS by TMX and Clearstream is the depth of integration it enjoys with the CDS. This integration does allow fixed income/repo desks better ability to more efficiently manage non-cash collateral and therefore limit operational burdens. This perhaps is its greatest strength. It now



remains to be seen how many market participants see this as a big enough benefit and actively trade through this new venue.

It is also interesting to note that NI 81-102 does restrict all mutual funds in Canada from participating in triparty collateral solutions. If regulators provide relief that could materially increase participation of triparty collateral.

Almost a year on from the implementation of T+1, what aspects (pre and post-transition) surprised you the most? Looking forward, what, if any, is Canada's approach to T+0?

Shadmann: The Canadian market moved from a T+2 settlement cycle to T+1 along with the US, Mexico, and Argentina. Market participants were well prepared for this change with substantial investment in process automation and work force preparation. The change to T+1 settlement did not see any material market disruption and perhaps that is what was the most surprising aspect of the changeover.

Looking ahead to T+0, we have a model that can be followed in the shape of the US fixed income space where the lending space already operates in a T+0 timeline. Takeaways and learnings from that space would be market and client discipline. Sell fails can be avoided with timely notices being sent by clients and automation of recalls and returns between lenders and borrowers. The T+1 already resulted in investment into this automation in the equity space. The fixed income space within Canada now needs to follow the same path.

From a client perspective, the transition to T+1 has been as smooth as it could have been. The most surprising aspect was how truly smooth the transition went for clients and client portfolios. Clients had many questions about the transition and how things went, but for the most part there was no visible impact to the management of their programmes and everyone has settled and gotten comfortable with the new regime. T+0 on the other hand, clients are much more wary about as they worry about many of the same questions with T+1 but on an even shorter time scale.

Yared: What surprised us — and many others — was how smooth the transition was at the industry level, barring some small hiccups. The fear of increased fails did not materialise, and no significant changes in the industry's post-trade metrics were observed in Canada. Looking forward, we believe that capitalising on the push for automation, infrastructure, and technological innovation will ensure that market participants are better positioned for a potential T+0. It is important to keep in mind, however, that whereas past transitions were an evolution of industry practices, moving to T+0 would imply a more fundamental transformation in products and processes across the trade lifecycle that requires, in our opinion, an extensive risk and cost-benefit analysis.

Schuessler: Implementation for T+1 was very impressive as it relates to the securities finance industry, there was a vast amount of preparation, analytics, and additional automation explored from almost all participating firms. There were several working groups coordinating road blocks, addressing open questions with respect to timelines and automation tools which enabled a very smooth transition to T+1. Canada's approach to T+0 is cautious, moving to T+0 would require substantial technological advancements, increased automation, investments, and likely a change to depository cut-offs.

Yan: The transition to T+1 settlement in Canada was notably smooth thanks to extensive industry collaboration and preparation led by the Canadian Capital Markets Association and its cross-border partners. One notable aspect was the rapid adoption of automated operational processes across the value chain, which helped to minimise disruptions and maintain market integrity. Beneficial owners appreciated the enhanced efficiency, though some required adjustments to their internal workflows and behaviour to meet the accelerated timelines.

Looking ahead, global partners in the UK, the EU, and Switzerland are taking the lessons learned as they tackle their October 2027 timeline. While T+0 settlement in Canada presents an opportunity to further reduce settlement risk, it also poses challenges such as the need for more real-time processing capabilities, enhanced liquidity and improved recall management. As these tests lie in the foreground, efforts continue to further perfect our current T+1 capabilities.

Zywot: The key to T+1 was recognising the potential issue early and addressing it promptly. This allowed us to form project teams and secure necessary funding. At BNY, we invested heavily in technology, sought automated and efficient solutions, and collaborated with vendors to ensure readiness for the T+1 transition.

Canada was well positioned for the move to T+1 as the industry prepared for the move well in advance through the development of a working group by the Canadian Securities Lending Association (CASLA) which worked with other industry groups (RMA/ISLA Americas, SIFMA) to help align North America. Many agent lenders automated recalls or used third-party vendors for recall automation and connectivity. Industry working groups, technological changes, automation, and improved efficiencies turned T+1 into a non-event with no noticeable increase in fails. Initially, we had seen a mismatch in auction settlement and maturity which led to higher-than-expected volatility in funding markets as reflected in elevated CORRA levels. This helped cushion the front-end supply shock of BA cessation.

Looking ahead, with current market technology, Canada would have to move to a pre-sale notification model to reduce fails in a T+0 environment which would require technological enhancements across the industry, potential reduction in liquidity and result in overall market inefficiencies. It would most likely require the move to a DLT model to efficiently handle the move to a T+0 environment.

Trapp: The most surprising aspect was that the change went absolutely seamlessly. Pat on our own backs for the amount of preparation that went into the effort. We are also pleased with the increasing number of borrowers that have signed up with vendors to automate the recall process.

Which regulatory initiatives will consume most attention for your teams over the coming 12 months?

Yan: Securities lending, like other aspects of asset management and capital markets, remains subject to increasing regulatory changes, while its importance as a source of return and liquidity for beneficial owners continues to increase. As regulatory complexities increase, it is increasingly clear that service providers play an important role in being able to manage such complexities in a more cost-effective way, controlling such risks.

The Government of Canada Market Functioning Steering Group (GMF), under the auspices of the Canadian Fixed Income Forum (CFIF), in 2024 published its final framework on a mandatory fail fee for late settlement involving Government of Canada bonds and T-Bills. With the CDS Post-Trade Modernization (PTM) project now live, the trial period (CDS to calculate cash penalties and share those details with market participants) is expected

to commence. The aim is to improve overall market efficiency, so market participants must practice heightened diligence to ensure timely settlement. Simultaneously, we continue to monitor the Securities and Exchange Commission (SEC) Rule 10c-1a developments, explore technical options and understand the scope to ensure an effective implementation. Beneficial owners are interested in how these developments will impact their lending programmes, particularly concerning data reporting and compliance requirements.

Trapp: Similar to recent years, regulation has continued to shape the wider industry with the new US administration expected to ease the regulatory burden on banks. This could lead to some dislocation versus international peers, potentially disadvantageous to non-US banks. Most of the focus remains on the Basel III Endgame, and at time of writing, it is unclear if the Trump administration will alter the Basel rules or even mark the “Endgame for Endgame”.

While delayed for 12 months, the SEC’s mandatory clearing rules require significant attention and staffing resources. Securities lending transactions are out of scope, though cash reinvestment desks partaking in repo transactions will need to ensure full documentation is in place for compliance in June 2027.

Lastly, settlement efficiency remains a key theme after Canada and the US successfully adopted the move to an accelerated T+1 settlement cycle in May 2024. In contrast with prior concerns around settlement discipline, the relatively smooth North American process paves the way for other markets to adopt the same measures, with Europe and the UK expected to transition in October 2027, benefitting from 'second mover advantage'.

Shadmann: The Bank of Canada’s proposed penalties regime’s implementation of a fee for failing to settle Government of Canada bond and T-bill trades will be a focus of ours. This initiative, once mature, will be a positive evolution in the Canadian fixed income market through the introduction of an incentive that will effectively decrease the number of fails and therefore increase the efficiency of the overall market.

Another regulatory initiative that will consume a lot of our attention is the SEC Rule 10c-1a. This rule is intended to enhance transparency of the securities lending market, which should bring confidence to a wide swath of participants in the market and encourage participation in the lending space. The end result is hoped to be a more liquid market.

Finally, the Canadian Investment Regulatory Organization (CIRO) has issued proposed amendments regarding mandatory close-out requirements. As per the proposal mandatory close-outs (i.e. automatic buy-in) would be triggered when there is a prolonged settlement failure. The proposed requirements would mean that investment dealers, that are members of the clearing agency, would be required to close the fail-to-deliver position by buying or borrowing shares within specific timelines, or else they would become subject to pre-borrow requirements. This amendment is currently in the public and market participant commentary phase.

Zywot: Regulatory demands on the securities finance industry have continued to impact our industry. Requirements such as RWA, comprehensive capital analysis and review (CCAR), liquidity coverage ratio (LCR) and single counterparty credit limit (SCCL) have defined the management and ability to grow a securities finance business. These will continue to be a large focus going forward and so will the strategies, trade structures and alternative routes to market.

In Canada, the industry has been recently focused on the CIRO proposal for mandatory close-out requirements, like Reg SHO in the US. The goal is to address short sale fails and to align the North American markets in this aspect. Although the Canadian and US markets are closely intertwined, there are differences between the two in which full alignment for mandatory close-outs may not necessarily achieve the desired efficiencies and could create unnecessary costs.

Yared: On the Canadian side, the CIRO requested comments on the proposed mandatory close-out rule earlier this year, and we are keeping a close eye on next steps. On the US side, although the SEC has delayed the implementation of the Treasury clearing rule requiring the clearing of eligible cash transactions and repo transactions by 12 months, preparedness will continue to be in focus in the coming year.

Last but not least is 10c-1a for reporting of securities lending transactions. Earlier this year, the Financial Industry Regulatory Authority (FINRA) asked the SEC to extend the 10c-1a compliance date and consider certain simplifications to the rule, with industry groups recommending 28 September 2026, as a new potential compliance date. Since then, and as a result of the White House's executive order on deregulation, industry groups have recommended rescinding the SEC 10c-1a rule.

On 29 April, FINRA published a letter to the SEC requesting an extension "such that covered persons would be required to report Rule 10c-1a information September 28, 2026". No official changes to the 10c-1a rule or its compliance date have been published by the SEC at this time, so this remains a regulatory initiative that will consume most attention for our teams over the coming 12 months.

How is the incorporation and development of new technology, such as DLT and AI, as well as standardisation and digitisation in Canada pushing the securities finance market forward?

Jennifer Ricot: There are various challenges within the securities finance market that new technologies like distributed ledger technology (DLT) has the potential to address. Traditional settlement processes, which can take days and are subject to settlement fails because each counterparty is maintaining separate reference data, could be revolutionised by DLT.

This technology enables near-instantaneous settlements with a reduced risk of failure, as all parties use a shared ledger as their single source of truth. Such advancements could facilitate the market's transition from T+1 to T+0 settlement times. Additionally, DLT allows for 24/7 movement of tokenised assets, overcoming the constraints of market operating hours and enabling simultaneous settlement of transaction legs. This reduces exposure and offers capital benefits, as demonstrated by HQLA^{X}'s achievement of surpassing the €1 billion notional milestone in delivery-versus-delivery (DvD) securities lending using DLT.

Moreover, DLT's capability for simultaneous settlement is transforming repo transactions, which are now being executed intraday in seconds on platforms like J.P. Morgan's Digital Financing and Broadridge's Distributed Ledger Repo. Traditionally, repo transactions occur overnight or on a term basis, limiting access to cash and increasing reliance on credit lines. DLT facilitates intraday liquidity access, allowing firms to optimise capital use and enhance their financial flexibility.

McLellan: The global securities finance market is undergoing a transformative shift,

fueled by technological advancements. This evolution involves not only the introduction of new technologies like DLT and AI but also innovative applications of existing technologies. As AI becomes more prevalent, it will further revolutionise collateral optimisation by enhancing decision-making and predictive analytics, streamlining operations, and reducing errors.

The integration of AI will boost efficiency and transparency, and aid scalability by handling large data volumes and complex calculations. Integrated AI will help empower dealers to optimise allocations within triparty systems, thereby enhancing their capital efficiency and asset utilisation across the street. For instance, by leveraging AI, market participants can efficiently analyse extensive data sets related to their activities with counterparties, enabling them to identify market gaps and advantageous opportunities. While, yes, this can be done by humans, the use of AI can expedite the findings almost instantaneously and potentially with enhanced precision.

Equally important is the creative use of existing technology for progress. For instance, J.P. Morgan's CCP Margin Exchange (CCPMx) expands connectivity across central counterparties (CCPs) and collateral markets by combining triparty optimisation with bilateral collateral delivery, offering substantial operational efficiencies and economic benefits to clearing members. This model simplifies the delivery and return of CCP-related collateral, including intraday recalls and substitutions, by replacing cash margins with more optimal securities. Additionally, the smart use of APIs for real-time reporting reduces friction in collateral optimisation, ensuring seamless integration and data accuracy across platforms. These advancements are not just technological; they are about creating a more interconnected and efficient financial landscape.

Yared: Securities finance at its core relies on contracts that are replicated inefficiently across various systems such as trading books, depository, and custody accounts. This setup causes friction in settlement and requires cumbersome, error-prone reconciliations.

DLT offers a solution for this: a distributed, real-time shared ledger with immutable audit trails. Trade lifecycle event communication can be transmitted and reconciled in real-time between counterparties. Direct participation from depositories can facilitate efficient, verifiable settlement. It enables the automation of lifecycle events such as mark-to-market and index-linked re-rates. Regulators can participate directly in the ledger, lessening the need for expensive regulatory buildouts. DLT acts both as a single source of truth and a communication medium for a diverse set of market participants. One such DLT offering is EquiLend's 1Source, planned to go live later this year, with NBF participating as a launch partner.

Zywot: At BNY, we invest heavily into technology and have adopted several forms of DLT and AI to streamline workflows, improve efficiencies and reduce human error. We have started to implement DLT and AI solutions across securities finance to better capture these opportunities and continually grow the business. Real-time settlement requires DLT to be effective and likely would be required if and when the industry moves to a T+0 settlement.

Canada, in general, has been a late adopter to technological and structural change (Canadian triparty repo is a good example). It seems the Canadian industry would rather take the “wait and see” approach to new technologies and structures allowing others to work through the potential difficulties and startup of a new product or technology.

Shadmann: The adoption of AI across the industry at an asset class level is of great interest to us. AI adaption will allow trading desks to consume and process massive amounts of data. This has a potential for immense utility towards predictive pricing decision suggestions at an individual security level. Factors such as availability, frequency of locates, corporate action events and general market information, to name a few variables, could be harnessed and distilled at a much faster pace to come to increasingly informed decisions at the trade level.

From a client perspective the adoption of AI in the client management space has been slow as companies choose to take a measured approach to the use and roll out of AI's features. We do see the potential for efficiency with regards to reporting, increased ability to provide and synthesize market colour in digestible sizes as well as provide more nuanced programme insights. There is also an expectation that some administrative tasks should be reduced allowing more time to be spent focusing on matters that enhance the client experience.

Yan: The integration of new technologies is progressively changing the Canadian securities finance market, unlocking new efficiencies and setting the stage for smarter, data-driven decision-making. From DLT and asset tokenisation to artificial intelligence and automation, digital tools are driving innovation across every aspect of the capital markets value chain.

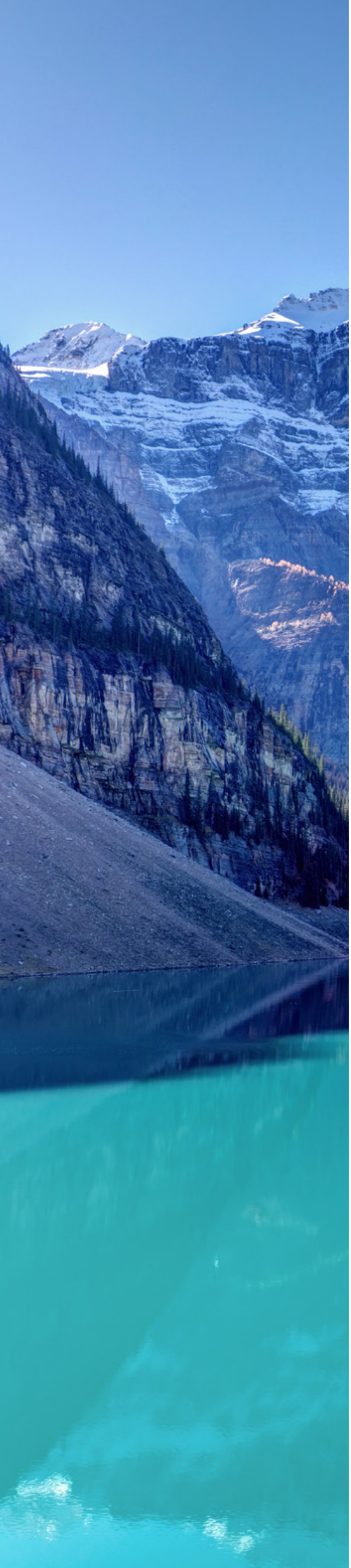
AI-powered analytics and machine learning models are becoming increasingly valuable in their applications toward trend analysis, demand forecasting and lending fee optimisation. These outputs are helping participants derive more actionable insights and inform higher quality risk-adjusted decisions with regards to their lending portfolios. Canada's regulatory ecosystem has kept pace, with the Canadian Securities Administrators publishing guidance on the ethical use of AI, encouraging responsible innovation while maintaining market integrity.

At RBC Investor Services, we are actively incorporating advancements into our operations — futureproofing the business by adopting scalable technology and partnering with service providers to further enhance data standardisation and transparency, with the goal of unlocking more transparent and meaningful insights for our clients.

Schuessler: I believe we are very much in the exploratory phase with respect to incorporating AI into the securities finance market. The industry in general carries a very large operational footprint, therefore incorporating AI will be very beneficial. It comes down to teaching the systems how to talk to each other and teaching a robot how to deal with a rate break, a mark, and the ALD process, etc. I think it is an exciting time and many vendors are already looking at how to take on the heavy operational nature of our business and incorporate AI features to solve issues and some are already offering solutions.

How do you assess the outlook for the Canadian securities lending markets for 2024-25?

Schuessler: There continues to be a high level of uncertainty in the market in general and the equity finance space is no different. In general, when there is much uncertainty and a looming potential recession exists, there is a lack of bond issuance, IPOs, M&A deals, which then bleeds into the secondary market. GC balances are then depressed and less deal stocks exist. However It is not all bad, as firms prioritise optimisation and collateral uses, those willing to accept lesser quality collateral, able to offer term, different structures or attractive rates will likely see growth in their securities lending books. I would anticipate demand for HQLA to remain robust however collateral and terms may vary. This volatility can also lead to more



direction shorting which is already playing out and should continue through 2025.

Trapp: Currently in Canada, overall demand remains fairly steady for securities lending. We expect that securities lending will continue to be a positive contributor to revenue for our clients throughout the remainder of 2025 and into 2026. With the on-again, off-again tariffs and brewing trade wars the market has seen extreme volatility and a flight to quality. Hedge fund activity has been tempered as a result of a risk off view. As mentioned, GC securities demand remains somewhat tepid so far in 2025, but we have seen a slight uptick for names and sector specific trading as the market continues to waver. Volatility in global commodity prices could bring an increase in demand for specific equity securities in the materials and energy sectors.

Our expectation is that DRIP and seasonal dividend trade demand will continue to provide a steady revenue stream for the remainder of the year and going forward.

Demand for HQLA and Canadian government bond benchmark issues will provide opportunities in both the term and open book space. Overall fixed income demand remains strong in Canada with utilisation and on loan balances growing significantly over the past year. There are still opportunities available in term and collateral upgrade trade structures although we have seen some softening in demand and downward pressure on those fees as some trades start to mature.

Borrowers continue to manage their long portfolios and balance sheets more effectively. Collateral flexibility will remain a driving force in revenue preservation and growth. Clients that accept a greater range of collateral will find themselves having a greater ability to participate in additional loan volume.

Herron: Canadian securities lending demand is expected to remain on a positive track over the next year. The industry feedback we have received indicates that current demand themes are expected to remain for the foreseeable future. We anticipate these current demand themes (e.g. collateral flexibility, risk weight, and offer rates) to also develop further. The Canadian stock market provides a diverse set of securities in many industries that will continue to drive borrower demand.

Zywot: The Canadian securities lending market is a dynamic landscape. We have now come into a period of volatility and uncertainty with the global trade wars, increasing global recessionary fears, geo-political instability, conflicts across the globe, and heightened tensions between China and Taiwan. With Mark Carney recently appointed as the new Prime Minister of Canada, we could see additional changes that may further impact this landscape.

With heightened volatility, one would expect increased volumes and specials in securities lending across the Canadian equity market, but this has yet to materialise. The uncertainty and rapid changes in direction in the trade wars have led to increased market volatility with many traders sitting on the sidelines. This may change with a trade war resolution. In the near term, expect the unexpected with continued bouts of volatility and potential major market and commodity swings. If trade wars are resolved and political stability returns, a long equity bias might return. With the uncertainty surrounding the trade wars and its potential impact on Canada along with global recessionary fears, further rate cuts could occur by the Bank of Canada.

Overall, one would expect some interesting times ahead in the securities lending markets, not only for Canada, but globally.

Yan: The Canadian securities lending market has had a strong track record of resilience amid ongoing change. Despite complex crosswinds, the market remains well positioned. Domestically, fixed income lending looks to remain strong, supported by ongoing rate adjustments and liquidity needs. The demand for front-end-of-the-curve, benchmark Canadian government bonds and provincial debt is expected to persist, especially given favourable repo market conditions and regulatory capital considerations. Meanwhile, equity lending should benefit from pockets of demand in sectors like energy and technology, especially as thematic trades emerge. Beneficial owners are increasingly keen on the events taking hold across the industry and are ready to partner closely to navigate the challenges and seize the opportunities.

The regulatory outlook is also a defining feature of the outlook ahead, highlighted by the government of Canada's mandatory fail fee and the SEC Rule 10c-1a. Furthermore, operational efficiencies remain front of mind as the global industry looks toward shorter settlement cycles.

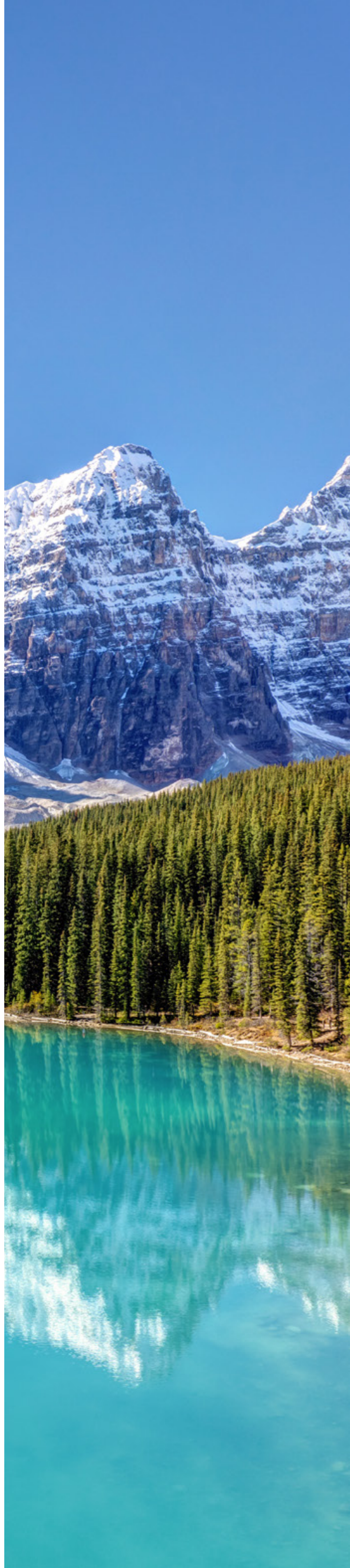
At home, our clients are increasingly engaged, seeking real-time insights and thematic guidance to align their lending strategies with the pace of change. We are working alongside to create flexible, scalable programmes that will withstand regulatory scrutiny and macro headwinds while driving revenue growth.

Shadmann: The rest of 2025 should be an interesting time for the securities lending market. We are facing uncertain times in the global trade space and that has material implications in the stock market and repo market and, therefore, the Canadian securities lending market. Expecting volatility to remain a common theme, and when/if trade policies firm up there could be uptick in demand for names operating in particular sectors.

The political scenario in Canada is in the midst of change as well. Newly elected political regimes have historically created a period of uncertainty, which leads to some sectors winning while others lose. Again driving volatility and potential leaning of investors to increase short exposure as they take advantage of increased market choppiness. All eyes are on the US, looking for some sort of policy stability whether that be in the form of global tariffs or newly negotiated trade deals, if trade policies are not firmed up we expect investors to remain on the side-lines. This will cause a repeat of past years with more muted demand, particularly in the specials environment. Which also means a long bias needing financing and maintaining tight capital requirements. On the other hand if trade policy gets finalised with some sort of global tariff regime, we do expect to see an uptick in specials in the Canadian market.

Yared: While we want to be optimistic, the outlook for the Canadian securities lending market is mixed. On the one hand, one would expect investors to take advantage of market volatility as more opportunities for short selling arise, resulting in increased securities lending activity. On the other hand, the current geopolitical and macroeconomic environment is making market participants cautious as they wait on the sidelines for more US policy clarity around tariffs and possible trade deals.

Based on current market conditions, Canadian market participants should continue to expect higher securities financing levels for Canadian ETFs, similar to what is happening in the US market. The bought deal space will probably continue to be slow, and specials are expected to come from cryptocurrency, rare earth minerals, and EV-related securities, but may not persist over long periods of time.



The Canadian market through the collateral lens

BNY's Simon Squire, managing director of product, Global Collateral, explores buy side trends, asset tokenisation, and optimisation goals, in his review of the Canadian market

Canada is already a well-established and mature market. Do you think there is scope to further increase collateral efficiency?

Absolutely. At BNY, we believe there is an opportunity to enhance the efficiency of this market, and we are committed to doing so for our clients. Indeed, over the last few years, we have seen strong growth of Canadian assets, which is widely accepted by the international community, and we do not see that growth stopping anytime soon.

Not only is there room for closer integration with local market infrastructure, but it is also clear that awareness of the advantages a triparty construct can provide is increasing among market participants. We see a growing understanding of the scale, efficiency, and optimisation benefits it can bring, not to mention the continuously evolving access to a broad range of counterparties. It is no longer just banks and broker-dealers, with a couple of lenders thrown in. We now have hedge funds, asset managers, depository banks, pensions, sovereign wealth funds, central banks, and CCPs, just to name a few. Being on BNY's triparty platform opens the door to our network which contains all of these counterparties.

Can you explain how triparty collateral management benefits market participants?

A triparty agent can make it easier for market participants to efficiently manage their collateral and funding obligations. At BNY, this is our core focus. We do all of the heavy lifting — security valuation and definition, eligibility monitoring, automated substitutions, and optimisation — which allows our clients to concentrate on their primary business activities.

Today, the collateral leg of most collateralised transactions can be managed in a triparty construct. Securities lending transactions, repo, derivatives, initial margin, variation margin, uncleared activity, cleared activity — being able to optimise across all of these collateral transactions is incredibly powerful. And we also support the principal leg of securities lending activity, which can be linked and settled at the same time as the collateral leg, reducing intraday liquidity usage. We have worked to increase the flexibility of our triparty platform, which has led to increased variety in the types of market participants we are seeing.

Are you focused on any specific Canadian initiatives at the moment?

Yes, we are actively working with clients to align our platform with evolving market needs. In the Canadian space, a great example of this is the work our product teams are doing to add Morningstar DBRS as a fourth rating agency. We know there are significant 'trapped assets', such as investment grade Canadian corporate bonds and North American and European securitised products, that are not rated by Moody’s, S&P, or Fitch.

Historically, gaps in coverage on these assets have limited them from being used as eligible collateral in triparty transactions. Incorporating Morningstar DBRS into our eligibility criteria enables a new subset of the collateral market to be used, enhancing liquidity.

Another great example of this is our collateral optimisation work, especially ECPOConnect. A Canadian bank was our first live client, and we have a number of Canadian banks doing proof-of-concept analysis with ECPOConnect now too. It is great to see so much activity in the region.

I often say that our job is to get the right assets, to the right place, at the right time. That is what all of collateral management boils down to and what we try to provide for clients.

How does BNY support clients in achieving their collateral optimisation goals?

Market participants face ongoing uncertainty due to regulatory, market, and geopolitical pressures, as well as changes in global market infrastructure which make it challenging to efficiently meet their collateral obligations.

BNY provides a range of optimisation solutions that offer clients efficient, flexible, and automated methods for allocating collateral to trades. Our approach is not one-size-fits-all. Rather, we allow clients to choose either a complete suite of optimisation services or specific modules that can be used alongside their own tools or vendor solutions. This allows clients to optimise their collateral portfolio and meet their unique optimisation objectives.

What trends, if any, are you seeing in Canada from the buy side perspective?

Canadian buy side clients are strongly trending toward integrated triparty and inventory management solutions. BNY is well-positioned to support these opportunities with our CollateralOne platform, which can help maximise operational efficiency and flexibility through a fully-automated collateral management operating model. Buy side clients can utilise CollateralOne to centralise their collateral, liquidity, and financing activity at BNY.

This capability is expanding to the Canadian market in the second half of 2025. There is also a large demand for flexible repo solutions among Canadian pension funds and asset managers, many of which are well supported by our infrastructure, making us the trusted partner for this transition.

It would be remiss of us to not touch on the SEC’s central clearing mandate, what are the latest developments?

The central clearing mandate is a key focus for BNY due to our unique role in the US Treasury market, where we provide our clients with an unparalleled suite of services across collateral management, clearing, and financing. In February of this year, the US Securities and Exchange Commission (SEC) announced a 12-month extension in the compliance dates. Eligible cash and repo transactions now need to be centrally cleared by the end of 2026 and the end of June 2027, respectively. The SEC also issued a temporary exemption for firms to separate house and client activity, delaying it until September of this year.

Even with the extension of the compliance dates, it is important that firms continue to prepare for central clearing, as the operational and infrastructure buildout requirements are significant. We have identified four key steps that clients should consider to prepare for the mandate: first, determine which transactions are eligible for clearing; second, determine the right access model for their activity; third, adjust their risk management practices; and finally, establish a change management programme to handle the necessary documentation, technology, and operational changes. This is a significant lift, and it is important that firms start as soon as possible.

What are the implications of the new rule for non-US market participants?

The effects of mandatory central clearing will be felt globally given the prominence of US Treasuries, requiring market participants across regions to reassess their trading and operational structures. Market participants who are conducting eligible transactions will need to submit their transactions to clearing — regardless of where those transactions take place.

We believe there will be interest in obtaining access to clearing for firms both in scope and out of scope of clearing due to the shift in market dynamics, as liquidity is likely to move toward centrally cleared markets. There are a number of solutions being developed within the industry to make it easier to obtain access to clearing. These include potential 'done-away' clearing solutions, as well as the development of potentially more cost-effective models, including the new Fixed Income Clearing Corporation (FICC) sponsored GC Collateral-in-Lieu offering, which could offer sponsors significant cost savings relative to current sponsored repo models.

At BNY, we are working to integrate many of these new models into our triparty platform, as we believe they will play an important role in facilitating the successful implementation of central clearing.

"A triparty agent can make it easier for market participants to efficiently manage their collateral and funding obligations. At BNY, this is our core focus."

Simon Squire
Managing director of product
Global Collateral
BNY

Canada's edge in securities lending: Innovation, alignment, and opportunity

As a mature and globally integrated market, Canada continues to demonstrate why it plays a central role in global securities finance, says Lisa Tomada, vice president, global securities lending, CIBC Mellon

Canada's securities lending market continues to stand out globally as a model of resilience, adaptability, and innovation. As we enter 2025, market participants are navigating a landscape shaped by macroeconomic volatility, elevated interest rates, regulatory developments, and a rapid acceleration in technology adoption. Canada's market, the second largest in the Americas by revenue, has remained a consistent performer despite global headwinds.

The Canadian securities lending industry has evolved over the past year and there are several emerging themes that will shape its trajectory going forward — changing borrower and beneficial owner behaviour, regulatory shifts, liquidity and collateral innovation, the move to T+1 settlement, ESG considerations, and Canada's positioning on the global stage.

Market trends and revenue shifts

Following a period of exceptional lending revenues in 2022 and early 2023, 2024 marked a period of recalibration. Securities lending revenues in Canada normalised amid softer demand for general collateral and the discontinuation of discounted Dividend Reinvestment Plans (DRIPs) by Canada's major banks.

These DRIP-related trades had previously driven high-fee specials, particularly in financials. Their removal disproportionately affected Canadian beneficial owners, who tend to hold large positions in domestic bank equities. More recently, market volatility stemming from tariff uncertainty has not translated into a significant increase in specials in the Canadian equity market.

Beneficial owners: Strategy and sophistication

Canadian beneficial owners have become increasingly engaged and proactive in how they approach lending programmes. Many adjusted risk parameters, broadened collateral acceptance criteria, and embraced new tools to monitor performance. A growing number of institutions now consider securities lending a core portfolio strategy rather than a passive income generator. Beneficial owners are also seeking customised reporting and governance structures that align lending with broader investment objectives — signaling a permanent shift from commoditised lending to strategic asset optimisation.

Liquidity, collateral, and risk management

Collateral management is no longer a back-office concern, it is now a strategic differentiator. Canadian lenders have expanded the types of collateral they accept, including equities and ETFs, an important way to optimise margin terms and generate incremental revenues.

Term lending, collateral transformation, and liquidity coverage trades remained strong through 2024. Borrowers — particularly foreign counterparties — continued to tap into Canadian government and provincial bonds to meet their own liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements. The rise in term-based loans also reflects market efforts to mitigate settlement fails under T+1, with lenders preferring more predictable loan maturities.

Technology, automation, and the impact of T+1

The transition to T+1 settlement across Canada, the US, and Mexico in 2024 was a milestone that pushed the industry to modernise. The compressed recall timelines and operational complexity drove rapid investments in automation, straight-through processing (STP), and exception management tools. Canada's alignment with global market structures remains critical. The synchronised move to T+1 enabled cross-border trades and recalls to function with minimal disruption, showcasing the value of industry coordination.

Canadian agent lenders and beneficial owners alike adopted automated recall systems and real-time inventory tools to ensure timely trade settlement. These systems are not only enabling compliance with T+1 but have also improved operational accuracy and efficiency, resulting in better client service and risk reduction.

Beyond T+1, the industry continues to explore AI-powered pricing, predictive analytics for recall forecasting, and smart collateral routing to further streamline workflows and support faster, data-driven decisions.

Greater transparency into loans and lending activity is a cornerstone of strong governance over Canadian securities lending programmes. Beneficial owners are demanding clearer visibility into where, how, and to whom their securities are lent. Agent lenders have responded with enhanced reporting dashboards, opt-out frameworks, and policies that align with institutional mandates. While this can sometimes increase programme complexity, it builds trusted partnerships with clients that enable more meaningful discussions on opportunities and programme optimisation.

Looking ahead, Canadian institutions are preparing for the US Securities and Exchange Commission's (SEC's) Rule 10c-1 reporting requirements, expected to take effect in the near term. These rules, which mandate real-time disclosure of securities loans, represent a major shift toward transparency. Canadian participants are also closely watching Basel Endgame's implementation, recognising that increased capital and risk-weighted requirements will affect indemnification and liquidity provision strategies.

Canadian institutions are investing in technology, broadening client engagement, and strengthening governance to stay ahead of market and regulatory changes. However, challenges persist from economic uncertainty and high funding costs to operational risks under T+1.

As a mature and globally integrated market, Canada continues to demonstrate why it plays a central role in global securities finance. With its strong regulatory framework, trusted infrastructure, and culture of innovation and transparency, the Canadian securities lending industry is well-positioned for long-term growth. By embracing technology, aligning with global best practices, and fostering responsible governance, Canadian participants are not just adapting — they are helping shape the future of the industry.

The rise of retail

The journey of the Canadian retail investor into securities finance is one of audacity, innovation, and adaptation, says David Mak, executive director, securities finance at Wealthsimple

The financial marketplace in Canada has two great kingdoms. At one end of this vast, snow-dusted expanse sits your traditional heavyweights — banks, pension funds, sovereign wealth giants, and high-net-worth asset managers. They invest in everything from agriculture to alternatives, from passive index trackers to private credit. Because they are hyper-sensitive to transaction costs, purveyors to these institutional investors make up for razor-thin margins with gargantuan volumes. Their financial strength rightfully places them at the head of the King's Court in said marketplace where they have long held decades of dominance.

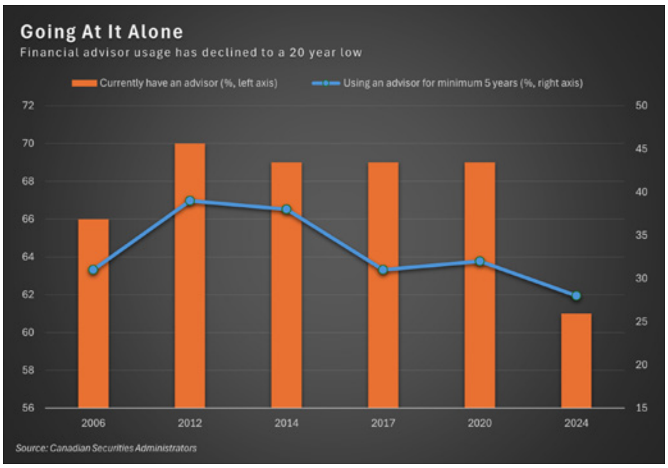
In the second kingdom of this domain lies a less regal, often nameless, and invariably overlooked player. Due to their less-than-deep pockets, they are often unjustly relegated to being mere spectators peering through the gates of Bay Street's gilded fortresses. But times are changing (and for the better). In today's digital and ever-shifting investment battleground, this participant is no longer standing outside the castle. They are stepping boldly inside, wielding their smartphones like lances with digital content creators as their white knights. This is the retail investor. And armed with apps, knowledge, and a pinch of confidence, they are transforming the Canadian securities finance landscape one lent stock, one shorted ETF, and one democratised dollar at a time.

Where did they come from?

The answer is as lucid as it is candid — they were always here. However, they did not have the means nor the scale to make anyone pay attention. Winston Churchill said: “To improve is to change; to be perfect is to change often.” And change did the retail investor. Fuelled by zero-commission mobile trading platforms (such as Wealthsimple), social media financial literacy (Youtube and Reddit threads educating millions at lightning speed), a touch of 'diamond hands' spirit, and combined with Covid-19 pandemic boredom largesse, self-directed retail traders became a force to be reckoned with.

Consider from survey data conducted in 2024 by the Canadian Securities Administrators and Ontario Securities Commission (OSC):

- 45 per cent of all Canadian investors have their own personal DIY trading account.
- Only 61 per cent of investors had a financial advisor — the fewest since 2006. 53 per cent of Canadians say they use at least one social media website for investing, with this figure skyrocketing to 82 per cent for investors in the 18-24 age group.
- Just 43 per cent of investors rely on financial advisors for information about investing, down from 70 per cent in 2016.
- Of the 11.4 million self-directed trading accounts in Canada through September 2023, more than half were opened this decade.



It demonstrates that retail investors are no longer passive participants on the sidelines of Canada's financial landscape. And this group’s pervasiveness is as prominent abroad as it is now domestically — data from the World Economic Forum (WEF) indicates that retail investors accounted for 52 per cent of all global investments in 2021 and is expected to grow to over 61 per cent by 2030.

Their relevance is so seismic that the WEF has even coined this movement: “Retailisation” or specifically “the rise of the individual investor who is benefiting from the proliferation of information, advice offerings and investment products and services that are now more readily available to everyone”.

From sidelines to centre stage

In simple terms, securities finance refers to the creation of 'financing' using 'securities'. It involves activities including securities lending, borrowing, repurchase agreements and collateral management. It is the hidden scaffolding that helps markets run smoothly by supporting short-term funding and efficient price discovery. In this realm, liquidity is king, collateral is currency, and risk management is the guardian knight.

Not so long ago, the world of securities finance was understandably the restricted domain of larger market participants to help facilitate their sizeable trading flows. But this backstage area of the financial system is increasingly being demystified in tandem with a drive for market transparency. Retail investors now want a piece of the action. And given the benefits, they are emboldened to do so.

Participation in securities finance offers potential advantages to Canadian retail investors, including:

- **Enhanced returns.** By making their assets available for lending, retail investors can earn incremental income without actively trading.
- **Reduced costs.** Within funds, securities lending revenue

often offsets management expenses, making low-fee investment products even cheaper.

- **Broader market functionality.** Securities finance underpins liquidity and efficiency, benefiting all investors indirectly by ensuring smoother settlement and tighter bid-ask spreads.
- **Access to new strategies.** As more sophisticated trading platforms and educational resources emerge, retail investors can leverage strategies like short selling, arbitrage, and hedging that previously required large dollar minimum sizes.

According to recent data from S&P Global Market Intelligence and Statistics Canada, the size of the global securities finance industry is approximately CA$58 trillion (US$42 trillion), with Canada accounting for less than five per cent of the market. Domestic securities finance utilisation stood at just CA$250 billion versus the CA$10.8 trillion in Canadian households' financial assets and marketable securities. Simply put, there is more than enough room for Canada's new generation of investors to engage in securities finance and leverage opportunities that were once reserved for institutional giants.

Everyone's a lender now

So now that we know the why, the question becomes: how can the retail investor crack open the gates and walk right into the Canadian securities finance gauntlet with curiosity and confidence?

1. Brokerage securities lending programmes

Retail investors traditionally bought and held stocks, earning returns through dividends or capital gains. Today, brokerages like Wealthsimple offer fully paid securities lending (FPSL) programmes, tapping into Canadians' desire for smarter, more efficient wealth building. Here is how it works:

- Investors lend out stocks they own (fully collateralised to protect against counterparty risk).
- Earn a slice of the loan fee (anywhere from pennies to percentages of total fee revenue).
- Retain full market exposure; dividends and price movements remain their entitlements while preserving the unequivocal right to indiscriminately trade in and out of positions.

> "Today's vibrant, colourful canvas of Canadian finance is being redrawn with bold new brush strokes – and retail investors are holding the paint brush."

David Mak
Executive director, securities finance
Wealthsimple

Investors can opt-in and out daily while earning a passive income stream that is virtually effortless. Their only job? Tap 'yes' to participate.

Fun fact: retail-originated loaned securities often command higher fees, as their inventory is sometimes harder for institutions to locate.

2. Margin borrowing and short selling

For the more adventurous retail crowd, margin trading adds complexity (and risk) but it also opens the door to participating in lending markets indirectly, as many brokerages disclose in their agreements that they can lend out your shares to cover others' obligations. Leveraging positions for amplified returns or losses is not for the faint of heart. But for seasoned retail investors, it is a way to let your assets multitask.

Canadian Investment Regulatory Organization (CIRO) data ending 2024, indicates that margin debt balances across Canadian brokers was CA$39 billion and up 52 per cent from pre-pandemic. As this figure moves higher, the ability to engage in trading strategies involving short selling invariably rises due to the increased supply of loanable securities — especially during meme stock frenzies, where an uptick in volatility and leveraged trading (via margin or options) is amplified.

3. Participation in securities lending ETFs

Another doorway into the world of securities lending is through ETFs and mutual funds that actively lend out their holdings. Fund providers like iShares and Invesco collect lending fees on their underlying holdings within the fund and split a portion of revenue with unitholders, adding to overall returns or lowering fund expenses. The yield enhancement may be small but steady extra gains accrete over time with zero effort. Investors are therefore indirectly participating in lending activities, an ideal scenario for passive income seekers.

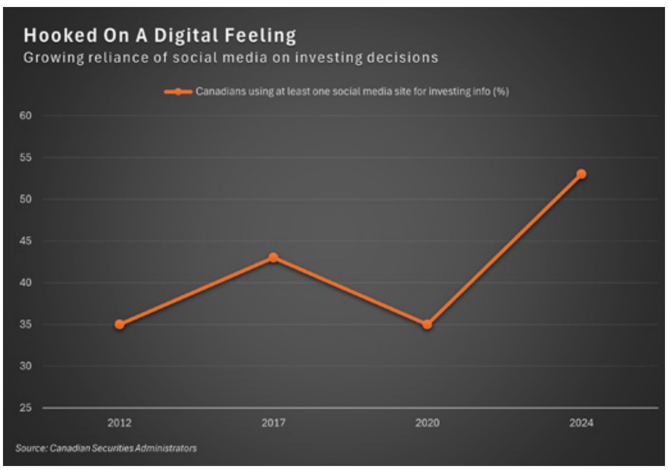
Protections and perils

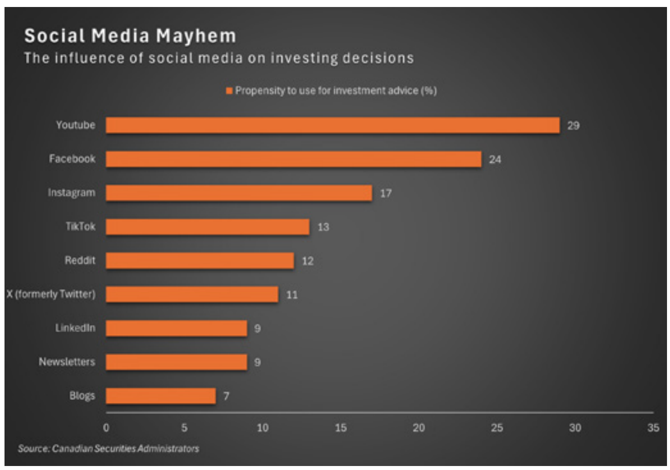
Retail investor participation is not just about new financial products — it is about a cultural shift in how Canadians talk about money. Social media has revolutionised and changed how financial markets move, with even a single influential post (legitimate or false) potentially unleashing a wave of volatility.

While the proliferation of TikTok 'finfluencers', Reddit threads, and gamification badges can all keep investors engaged, it may at many times also encourage risky short-term behaviour. In the quieter, behind-the-scenes world of securities finance, the rise of social media is a double-edged sword. It has broadened access to information, but can also create real problems and ripple effects in this critical corner of the financial market.

1. Misinformation and hype

Securities finance is a technical, nuanced process — investors lend out their assets in exchange for a fee, and borrowers use those securities for various strategies. Taken literally, it is simplistic. But technically, it is sophisticated. Yet on social





media, complex subjects often get flattened into catchy but misleading narratives.

One viral post accusing brokers or institutions of 'stealing shares' could send waves of distrust across Canada's retail investing community. In reality, securities lending is heavily regulated and typically benefits long-term investors through added revenue. Still, misinformation can lead retail investors to opt out of lending programmes, hurting liquidity in the Canadian securities finance market and driving up borrowing costs unnecessarily.

2. Herd behaviour and market instability

Remember the GameStop saga? When retail investors band together online to squeeze short sellers, they inadvertently put securities lending systems under massive stress. In a short squeeze, borrowers must scramble to return shares — and if lenders panic and pull shares back early (influenced by social media buzz), it can cause extreme volatility.

In Canada, where the securities lending market depends on stability and predictability, sudden, social media–fueled movements can disrupt lending chains. The result? Natural market functions are disrupted, settlement cycles become delayed, and liquidity can dissolve from market makers, resulting in wider price spreads. All of which leads to higher risk for investors and participants alike.

3. Privacy and data vulnerabilities

Social media platforms thrive on data sharing — often a little too much. Retail investors discussing their portfolios publicly can unintentionally expose positions that sophisticated traders can exploit. If information about which shares are heavily loaned or about to be recalled spreads too widely, it can distort normal market behaviour. Professional borrowers might adjust strategies based on leaked info, potentially creating unfair advantages and unbalancing natural market conditions in Canadian securities lending.

4. Regulatory challenges

Domestic financial regulators, like the CIRO and OSC, work hard to monitor and ensure fair practices in securities finance. But social media is a moving target. False claims, pump-and-dump schemes, or coordinated short squeezes often happen too quickly for regulators to contain it in real-time. The decentralised, borderless nature of online platforms makes it even harder to maintain transparency and trust in Canada's tightly-knit securities finance market.

Canada's forward-looking regulatory bodies and market participants have created an array of policies, education programmes, and working groups to support the growing retail investor base and boost the public understanding of financial products, including the often-overlooked nuances of securities lending. These include:

- **Canadian Securities Administrators (CSA) initiatives:** Proposed modernisation of fund risk disclosures includes highlighting the use of securities lending.
- **CIRO Investor Education Fund:** Free courses on securities finance fundamentals.
- **OSC's Investing Academy:** A series of interactive courses that teach people about money and investing.
- **Enhanced disclosure:** Funds must disclose their securities lending practices, revenues, and risks in prospectuses and annual reports.
- **Explicit disclosure requirements:** FPSL programmes must illustrate clear terms and risks.
- **Collateral standards:** Strict rules govern the collateral accepted in securities lending transactions to minimise systemic risk exposure.
- **Increased brokerage education platforms:** Wealthsimple Learn articles and guides.

Conclusion

The journey of the Canadian retail investor into securities finance is one of audacity, innovation, and adaptation. Once an afterthought, they are now boldly shaping liquidity dynamics, influencing fee structures, and redefining what it means to be in the spotlight of active markets.

They are tech-savvy, own the social-media stage, and have become a force to be reckoned with by not just buying and selling stocks, but also dipping their toe into securities finance to lend, borrow and optimise. Today's vibrant, colourful canvas of Canadian finance is being redrawn with bold new brush strokes — and retail investors are holding the paint brush.

Don’t mind the gap
Our repo markets bridge liquidity gaps. More than 160 European financial institutions are currently active on our Repo, GC Pooling, HQLA^x and eTriParty markets. They benefit from trading opportunities with fully integrated clearing and settlement.
Architects of trusted markets
EUREX

Securities Finance Middle East Symposium

Located in Saudi Arabia's capital city, Riyadh, the Securities Finance Symposium was hosted for the first time in the Middle East. Karl Loomes and Carmella Haswell report on the key highlights of the event which provided a deep dive into this emerging market

The Kingdom of Saudi Arabia (KSA) has garnered much attention from the securities finance market. For the first time, Securities Finance Times hosted its Middle East Symposium, which took place at the Hilton Hotel in the Kingdom's capital, Riyadh. Here, industry leaders, financial experts, and innovators explored the latest trends, challenges, and opportunities.

Saudi Arabia's evolving financial landscape provides a distinctive backdrop for in-depth discussions on critical topics, including market access, risk management, and emerging technologies shaping the future of securities lending and borrowing (SBL), as well as collateral management.

Firms call for clarity over Saudi Arabia's operational infrastructure

"In terms of the market infrastructure support for securities financing transactions, things have been heading in the right direction with areas for continuous improvement," said Cheuk-Yin Cheung, head of structured products, Middle East at Clifford Chance.

The 'Regulatory Framework and Market Structure' panel examined the interplay between market governance and operational infrastructure that underpins the Kingdom's SBL environment.

Cheung highlighted the importance of Edaa's — the Securities Depository Center — establishment of international central securities depository links with entities such as Euroclear and Clearstream.

She believes it sets a blueprint for the opening of more Saudi securities to be readily transferable, particularly in secondary markets where they may be used as collateral assets.

The discussion highlighted that within a relatively short space of time, the investor accounts system within Edaa, as well as enabling regulations from the Capital Market Authority (CMA), has significantly changed the ecosystem for "off-exchange" transfers of Saudi securities from a starting point where permitted transfers of Saudi securities centred on "on-exchange trades" at the Tadawul, to a wider range of circumstances today covering repo transactions, SBL, regulated short-selling, and as collateral to support these transaction types.

Jalal Faruki, head of custody and securities services at SNB Capital, noted that there have been "a lot of positive and significant changes".

Providing an overview, he said stock loan regulation in the country has been in effect since 2017-18, but that trade activity was not seen until the introduction of post-trade technology in 2022. Activity has "exploded" since then.

"It's an evolution. What we saw in 2024 was a huge volume increase in activity and value of securities on loan. We went from less than 30 securities on loan in prior years to nearly 200," he added.

However, through this development, Faruki noted that new challenges arose to continue scaling and growing the market. For example, transaction costs have been 500 riyal per trade, which creates limitations and can lead firms to create minimum trade sizes or minimum loan periods. Such transaction costs also limit the ability to do stock loans for very active borrowers and market makers.

On the asset servicing and custody side, in terms of practical challenges, a number of local custodians are not able to reflect securities on loan as part of the investment or custody account infrastructure, which causes breaks in the middle office and fund accounting, Faruki said. He continued: "I expect that this year, we'll start seeing some of those infrastructure gaps getting resolved."

Representing BNY, Ina Budh-Raja, global head of securities finance regulatory strategy, says the firm is now in a position to be lending on behalf of its offshore clients — "It has been a journey to be established here, we've appreciated the opportunity to work extensively with local partners and regulators to achieve a viable operating model and we're delighted to go live now."

As she welcomed the engagement with local regulators and the country's stock exchange, she noted the importance of establishing clear best practices around how the market operates in order to generate liquidity.

Currently, one of the challenges in the market for Budh-Raja revolves around how international agents plug into the market, where there is a requirement for a local securities lending agent and further, the need for market infrastructure to evolve in enabling triparty collateral management models to operate along internationally established frameworks.

"Having the ability to use the market standard Global Master Securities Lending Agreement, adapt from there, and develop an annex around it, is very important for capability, and we welcome that as an agent," she said.

Budh-Raja added: "We have a large programme that, over time, is eager to access the 80 per cent of Shariah holdings in the market. 80 per cent of holdings in Saudi are still trapped, so how do we unlock that inventory? It's not straightforward, but work is being done."

Thinking ahead, Faruki asked: "What's important is to look at what's the natural supply and demand, and how do we find solutions to cater to that?"

The panel also raised the subject of netting. In February 2025, the Saudi Central Bank (SAMA) issued and enforced Close-out Netting and the related Financial Collateral Arrangements Regulation.

In agreement, the panellists highlighted the importance of netting to achieve an efficient market within Saudi and clean netting opinions, which extend to coverage of the local sovereign wealth funds, will be crucial to achieving the full benefits of the new netting regulations.

Providing more information on the current situation, Faruki noted that capital market institutions, such as SNB Capital, or anyone regulated by the CMA falls under those Close-out Netting regulations.

However, he pinpointed that there is “no clear view” on investment funds domiciled in Saudi Arabia which are managed by capital market institutions, which are an important part of any securities finance ecosystem.

He suggested that this raises questions: “How can we enable a standard agency lending model where Close-out Netting applies to the underlying institutional clients and investment funds a capital market institution may provide agency lending services to?”

Concluding the panel, Budh-Raja said: “As we move forward, we've got a good starting point and the more that the market centres around global best practices, the more we will see regulatory clarity, which will ease accessibility by the international market — really enabling the market to operate at full scale to support the broader policy objectives of Saudi Vision 2030.”

Collateral management solutions in the Kingdom

Setting the tone for the ‘Collateral Management and Solutions in Saudi Arabia’ panel at this year's event, moderator Ricky Maloney, Qatar

country executive and head of GCC region at Davies Group, quipped: “If the answer is not among these four, you won’t find it anywhere!”

Though the Saudi market has seen its sovereign bodies involved in securities finance for some time, for non-government related entities in the country (and region as a whole), the concept is fairly new. This gave proceedings an interesting tone — panellists having to address the simple questions and ideas, and not just the more complex and intricate that we sometimes see.

First among these questions was, why should an asset owner engage in securities lending?

Naturally, the opportunity to bring in additional revenue is “paramount”, said Simon Squire, global head of product management at BNY. When you are holding securities for the long term, he noted, it brings an opportunity to lend them out. The risks, he pointed out, can be managed by collateralising the loan.

Touching on a theme seen across a number of panels during the day, he highlighted the preference for the use of cash as a collateral. This is natural in a market where securities finance is still in its infancy, but Squire reiterated the point of using securities as collateral as well. Using your owned assets as collateral, he suggested, allows a firm to leverage its balance sheet in an efficient way.

In this area, Greg Donovan, vice president, collateral services, State Street, offers some advice: “Think about collateral at the point when you are thinking about the thing you will need collateral for.” It should be an active process, he highlighted, with firms keeping the end goal in mind when looking at what their obligations are, legal framework, and what assets they wish to use.

The importance of collateral goes beyond this, however. The efficient use of collateral, and the benefits it brings, is a facilitator for the wider market as the region develops, underscores Will Jeffries, executive director and head of international sell-side trading services sales at J. P. Morgan.

Squire reiterated this point, suggesting that while collateral is there for the event of default, it is fundamental to financing flows.

The use of triparty was another major area of discussion during the panel.

Triparty, of course, brings a third-party custodian into the collateral process. This means, observed Jeffries, that collateral is centralised, allowing for automation and mobilisation — “putting it in the right place at the right time”.

But the benefits go far beyond this, compared to bilateral arrangements.

Squire emphasised that with just two parties, there can often be scaling costs. A triparty arrangement — due in large part to the size and expertise of the triparty agent — can help accurately value assets, assess their eligibility, and therefore reduce costs.

As Donnovan put it: “The key part is the prefix ‘tri’ — you have a large, independent party, working to ensure that all collateral obligations are fulfilled for the benefit of both sides of the trade.”

Emphasising this efficiency and expertise in recent real-world examples seen at BNY, Squire noted that even despite recent geopolitical turmoil hitting markets globally, “we didn’t miss a heartbeat”.

Coming back to the country’s — and region’s — preference for cash collateral, the panel were seemingly of one mind; while cash is seen as easier, and is usually the preference in the less-developed markets, it comes with additional costs and missed opportunities.

Speaking of the extensiveness of cash, Donovan called attention to the fact that if you are using cash for collateral, you are not using that cash for something else. In the case of an active fund, for example, freeing up that cash will mean having more money to put towards the funds primary, money-generating, purpose.

With the symposium being held in the Kingdom of Saudi Arabia, naturally the question arose — is there growing demand for the use of KSA securities as collateral?

Again the panel were in alignment with their overall view — there is growing demand, and a lot of enthusiasm, but there is still a long way to go.

Chief among some of these considerations are local regulations and Shariah law.

One area where these concerns still need to be addressed, Jeffries flagged, is in refinancing of cash collateral — the (potential) need for

reinvested collateral to also be Shariah-compliant. He noted that as lending grows, liquidity increases but that will increase costs, meaning “an efficient refinancing mechanism is key for the next stage”.

Ownership transfer was another factor that needs to be addressed when it comes to Shariah law. Here, Jeffries noted, a number of emerging markets in Asia (notably South Korea and Taiwan) offer an example. These are beneficial owner markets where title transfer is a problem, and where the pledge system has been used to mobilise these assets.

Away from these technicalities, another panellist highlighted an often even more practical problem that needs to be addressed when using KSA securities in international markets — the working week is different, with Saudi Arabia working a standard week of Sunday to Thursday, while the majority of the world works Monday to Friday.

Again, the panel was unanimous on one key point — this is an exciting time for the securities finance market in Saudi Arabia.

Saudi is a ‘blank sheet of paper’ for development

The market plays host to extremely advanced technologies, however participants see evidence of archaic technology that is still in play today.

To this, Andrew Geggus, global head of agency lending at BNP Paribas, asked: “What can we do as an industry to embrace new technologies and make the market more efficient, but also understand the limitations of what we can actually do?”

Panellists explored how fintech, blockchain, and automation are revolutionising securities finance worldwide in the ‘Global Trends in Securities Finance Technology’ session. Speakers also examined practical applications and how regional centres like Saudi Arabia are pioneering technological integration.

During the session, Geggus emphasised resource challenges that all firms face, from a business perspective, on what companies can allocate to advancing technology.

To this, he suggested focusing on return investment and how much it will cost firms to achieve their end goal. For example, Geggus is already seeing AI being used in the market, such as bots that automatically do locates for firms. He added: "Trading automation has increased over the last few years, but I still see some back office processes that are using Excel."

In terms of AI, there are three different sets of organisation types involved: large banks which have money assigned to AI at the top of house level; fintech providers which invest in AI across different toolsets as part of an overall technology innovation strategy, which benefits firms at a mid-tier and top-tier level; and there are the lower-tier firms, which have smaller budgets to use to invest in this technology.

When speaking on the lower-tier firms, Darren Crowther, head of global securities finance and collateral management solutions at Broadridge, said: "The only way that smaller firms are really going to get benefits from AI from securities finance, is to wait for technology providers to provide it as a service. So very much a waterfall effect, because it's so expensive to invest and fail — 8 out of 10 AI trials fail."

Similarly, David Lewis, senior director, securities finance at FIS, commented: "We can go as fast, or faster, than the market can. The market is a collection of very different organisations doing different things at different times, at different places, with different budgets and different expectations."

Focusing on the development of the Middle East, Lewis describes Saudi Arabia as a "blank sheet of paper" opportunity.

He explained: "It's about best practice here and molding this blank sheet of paper that you guys have in this region, particularly in Saudi Arabia, which has the potential to write its own best practices. Start with the latest technology, not with legacy, not having to rebuild, readjust, reframe."

For Dimitri Arlando, head of sales EMEA at EquiLend, this region has adopted technology "really well and really fast", partly because it is a "blank sheet of paper" to start with.

"The issue with AI and machine learning is that possibilities are endless," he continued. "So how do you actually focus on real-world problems? And how can you use AI and machine learning to help solve those real-world problems?"

While this 'blank sheet' analogy proves to be positive in many panellists' eyes, Geggus believes there needs to be a balance

between these "great ideas" and a "blue sky" thinking, with the reality of the market.

"While you want to run ahead at full speed, have a blank sheet of paper to build something new, there's still going to be elements that people have to be aware of. In terms of hurdles, it's purely dealing with an infrastructure where there is a lack of standardisation," he added.

If a market standard can be met, alongside some form of standardisation, Geggus said this will help with the level of market efficiency.

He explored: "But in reality, there isn't standardisation, and that's come through to technology as well. So we have to be aware that there are different technology levels across all firms and, to be an efficient market, we have to try and figure out how we can work together in the most seamless way — to do so, it's interoperability."

Lewis commented that there is an opportunity here not to succumb to some of those legacy system issues. While interoperability is needed, there are a lot of the pain points that other markets have been through, such as fee breaks, rates, and reconciliation engines.

"We're not going to solve everything with that blank sheet of paper, because you do have to have these legacy connections," he noted. "But the ability to clear away some of the friction, some of the costs, some of the lack of efficiency in the market, I think is huge."

Crowther suggested that firms should work to create "some kind of data ontology". He explained: "Inside your own organisations, you have hundreds of legacy systems as well. So how can you standardise an API down to those platforms? A single source and common data ontology gives you more capability.

"Creating some kind of data ontology where they can communicate over the APIs is undoubtedly the best way."

Lewis agreed with Crowther, observing that: "Competition is great. Interoperability is reality."

Providing a Saudi Arabia perspective on technology in the Middle East, Abdullah Alghamedi, section head of securities services at SNB Capital, highlighted the importance of technology for the country. However, he indicated that there are "many options for systems" and so “the complexity around securities lending may seem challenging”.

In his eyes, the market needs education for the local participants to understand: what the different systems are and how participants can benefit from these systems to grow their business and provide more scalability.

“We see a system for collateral management, a system for post-trade and trading platforms — having these different systems could be confusing for a market that didn't have these capabilities just three years ago. So we need to have some sort of education on the business cases of these systems for the local markets,” he added.

Rounding off the discussion, Geggus highlighted that “every single year” the market sees the appearance of more vendors and technology solutions. And while this is a “fantastic thing”, the industry does not have unlimited resources to onboard “every single bit of technology”.

In the end, value of investment is key. He concludes: “We've been in a bit of a flux over the last 10 years, where there's been more platforms coming forward, there's been more investment into technology, and I think that will carry on. But at the same time, there'll be more scrutiny looking at the analysis of the return on investment of these technology solutions.”

The future of securities finance in the Middle East

With all the excitement and enthusiasm surrounding the burgeoning Saudi securities finance market at this year’s Middle East Symposium, the panel entitled ‘Navigating the Future of Middle East Securities Finance’, looked at some of the challenges the region faces, and what the next few years may have in store.

As the region as a whole pushes towards developing its capital markets, the Kingdom sees its Vision 2030, and the regulatory changes it has brought about over the past few years, in many ways driving the market, suggested Ross Bowman, global head of client management securities lending and repo at BNP Paribas’ Securities Services.

One interesting aspect in Saudi, Bowman noted, is that unlike many more established regions, where the secondary market drives activity, in KSA the primary market and IPOs have been generating interest and activity.

More broadly, international investment interest in the country is also growing. Alistair Griffiths, director of business development at the International Securities Lending Association (ISLA), highlighted the fact that ‘what is happening in Saudi?’ is one of the top questions he gets asked.

Though Saudi Arabia is seen as having a securities finance market in its infancy, its central bank and sovereign entities have been participating internationally for decades, making much of their inventory available for securities lending on a global basis.

Simon Lee, managing director and head of business development for EMEA and APAC at eSecLending, reiterated this point, noting that the Gulf has been a key region for his firm for many years, and continues to be the focus on a number of fronts.

Ruth Ferris, senior director and head of Secured Financing for Asia and head of Secured Financing sales EMEA at MUFG Securities, emphasised that the success of securities financing across the Kingdom and the broader MENA region hinges on robust infrastructure, comprehensive systems and procedures, and a collaborative exchange of knowledge among onshore and offshore market participants to master the intricacies of the market."

Both this need for education and the importance of mobilising collateral were reiterated — from the agent lenders' perspective — by Andrew Stephen, executive director, buy-side trading services at J.P. Morgan, who also succinctly summed up the attitude of the local market — “The energy is palpable!”

The topic of onshore versus offshore supply was also a key theme of the panel — offshore being more established via the Kingdom’s longer-running securities finance market, while onshore is a newer, burgeoning aspect that both KSA and international institutions are looking to explore.

The problem, highlighted by a number of panellists, is that these practicalities of having an established market, with infrastructure in place, means that ease and speed to market still make offshore supply more appetising than onshore.

As Lee put it, though in theory market participants may be neutral in terms of where supply comes from, practically the time to market is a key factor — which may mean offshore supply being advantageous, depending on the institution concerned.

Moving on to the future of SBL in Saudi, and the challenges that may be faced, the panel once again reiterated the need for education and local expertise — working with local partners as the linchpin when operating in KSA.

This education, highlighted Bowman, is a two way street — established international players have a lot to offer the Saudi market, but also have a lot to learn from local players on how to work with, and within, the Kingdom.

Shariah compliance, the panel agreed, was a prime example of where greater knowledge and understanding on the international front would likely facilitate more interaction with markets in the Middle East.

Referencing best practices from the global market, Griffiths raised a key point — the Saudi market does not simply have to do exactly what other countries have done, but can instead pick the best of each that works for them.

This 'blank slate' idea was touched on by a number of panels during the day. Whereas for much of the established securities finance markets globally, changing regulations and new technology are adopted within systems and structures that already exist — building on top of decades of prior laws, regulations, and once-new technologies that are now long-obsolete.

For Saudi Arabia however, and other markets in the Middle East, in many ways they are starting from scratch. There is no 'legacy debt'. This means there is an opportunity for things to be set up with modern technologies and modern regulatory frameworks in-mind. Blockchain and distributed ledger technology (DLT), the panel indicated, is a perfect example where this could be the case.

Another area of potential opportunity — and one where Saudi is already differing from other markets — is the distribution of assets. What is effectively the retail market, noted one panellist, makes up a much larger proportion of supply in KSA than we see in established markets (though retail is growing elsewhere).

None of this process will be quick, and the Kingdom's securities finance market still has a long way to go. As Bowman put it: "This is a marathon, not a sprint."

Toward a digital-first future: Reimagining collateral management

Following DTCC's Great Collateral Experiment, Daniel Tison reports on the key implications for the securities finance industry

An hour and a half was enough for the Depository Trust & Clearing Corporation (DTCC) to demonstrate the power of tokenised collateral to unlock liquidity, streamline operations, and accelerate the convergence of traditional and digital markets.

Featuring real-world use cases across a diverse set of market assets, 'The Great Collateral Experiment', taking place on 23 April, was the first industry demonstration on DTCC's Digital Launchpad — a purpose-built blockchain ecosystem launched in October.

The new collateral management platform is an application on the DTCC AppChain, built atop LF Decentralized Trust's Besu blockchain.

"The future is now," said Nadine Chakar, global head of DTCC Digital Assets, in her opening statement. "In collateral, digital isn't the future — it is the present. This is an opportunity for us as an industry to reimagine collateral management."

She explained that the goal is to break down barriers by bringing the industry together to accelerate the adoption of digital technologies.

"Why collateral infrastructure? Well, we think collateral management is the perfect killer application for blockchain," Chakar continued. "We have all witnessed the recent market volatility and liquidity challenges, which have underscored the criticality of resilience across global financial markets."

Chakar believes that the move to digital collateral plays a critical role in enhancing liquidity as well as strengthening the resilience and soundness of financial markets. In particular, she highlights distributed ledger technology (DLT) as a solution to improve settlement speed, security, and data management.

“Our goal now is to find common ground for a unified digital collateral infrastructure for the entire industry, and we believe that an open, interoperable approach to this new infrastructure is the best path forward, as both the technology and global regulations continue to evolve,” she stated.

For Chris Watts, CEO of Tonic, who hosted the event, this demonstration represents a “real game-changer”, as there has never been anything near this scale or level of completeness.

“In a climate of ever-increasing complexity and stress, now is the time to pivot towards superior solutions, and we believe this comes in the form of digital,” said Watts. “Imagine a world where an asset moves fluidly from one continent to another with no restriction on settlement windows, regions, or product silos.”

The real magic

For this purpose, Watts acted as the CEO of MarginCore, a fictional bank that the DTCC established to facilitate the introduction of this new framework.

He started by introducing a “very sexy” set of scenarios based on real-world events, which aimed to demonstrate 24 hours of global collateral movement via a digital operating model, using tokenised assets, DLT solutions, and smart contracts.

Acting as the chief technology officer (CTO) of MarginCore, Dan Doney, CTO and chief architect at DTCC Digital Assets, highlighted the benefits of the DTCC AppChain, such as no fees for transactions, flexibility, and interoperability.

The “real magic”, for Doney, is the conversion order, which converts value in traditional custodial systems to digital form and vice versa.

“My traders love that they can access any form of value — cash, Treasuries, funds, equity, debt securities, and even crypto — from the same rails,” Doney, staying in character, exclaimed. “I love that my corporate policies are enforced automatically, so they can only execute transactions that are compliant in each of our global markets.”

The fictional working day started in Tokyo, with central counterparty (CCP) trading and margining of crypto derivatives. In the digital state, MarginCore was able to access inventory from its US branch outside of local market hours to support its obligation in the Tokyo time zone.

Net asset pool allowed the global company to manage its inventory across both traditional and decentralised finance (DeFi) markets using a single platform and team, bringing significant operational efficiencies.

“We mobilised US Treasuries to Tokyo in real time with no settlement or market constraints, so if we’re short of a specific asset type, we now have a global liquidity pool to mobilise from 24/7,” explained Watts. “We’ve also avoided an external repo trade and the extra settlement risk that brings.”

Turning a nightmare into a dream

As the European markets are starting to wake up, the experiment moves to Paris, where DTCC demonstrated collateralising over-the-counter (OTC) derivatives under the uncleared margin rules (UMR).

MarginCore Paris starts the day with a deficit in its agreement with Wellington and excess collateral with SocGen. In the digital state, a single asset pool, regardless of collateral agent, allowed for improved optimisation, including the option of connecting to triparty agents.

Additionally, tokenisation enabled the automatic distribution of coupon payments, eliminating the need for substitutions over income events.

“We’ve shown we can instantly mobilise return collateral assets to meet other obligations on the same day across regional markets,” Watts commented. “In parallel, we remove the need for internal treasury funding and any internal trading costs.”

On that note, Doney added: “Tokens that streamlined dividend distributions and smart contract automated collateral processes know the beneficial owner and allow transactions that took days, weeks, and sometimes even months, to execute now move in real time. What used to be a nightmare is now a dream.”

The third scenario demonstrated the benefits of using tokenised collateral under stress credit conditions. A sudden shock to global financial markets results in gilt prices falling, and MarginCore London requires real-time changes to its eligible collateral terms to support continued liquidity in the market.

The inclusion of smart contracts and tokenised money market funds (MMFs) helped counterparties navigate the stress event more efficiently. With real-time changes to the collateral schedule, MarginCore was able to deliver tokenised MMFs to market participants with near-instantaneous settlement. This resulted in seamless collateral coverage, mitigating risk and eliminating the need to redeem MMFs for cash collateral, as Watts explained.

"Our liquidity resilience was protected via real-time inventory combined with instant tokenisation and mobilisation of digital MMFs," he said. "As gilts crashed, both MarginCore and our counterparties quickly reverted to alternative assets to stay solvent."

The day wrapped up in New York, with intraday repo, crypto collateral assets, and inter-CCP collateral.

The aftershock of London markets continued to unsettle MarginCore, which would typically need to borrow against its credit line or settle overnight repo to raise cash. However, digital cash allowed participants to settle intraday repo with near-instantaneous settlement, removing delays associated with traditional bank processing times.

"The power of digital collateral enabled us to make the right decisions for the business at speed and then execute upon them in real time," Watts, who remained in character, summarised. "In turn, this helped secure margin, financial health, and my job, I suspect."

A team effort

Within the simulation, DTCC optimised CCP derivatives and repo collateral in real time, and mobilised assets across regions using a global collateral pool. In a very playful way, the Great Collateral Experiment also showed how tokenised assets can eliminate the need for record date substitutions and how changing collateral eligibility can protect a company from a default within a stressed event.

Watts summarises the key outcomes of the experiment as liquidity, cost savings, and operational efficiencies. He also emphasises the importance of resilience, close-out speed, and interoperability of the digital collateral operating model.

Reflecting on the experiment, Watts said: "The automation and scale provided by digital collateral will help protect us all from volume surges that come as part of a long-term stress climate that now seems, I'm afraid, our new normal — not to mention the extensive cost savings activated by digital collateral across funding operations and technology streams.

"Especially important, in the tough-cost environment we find ourselves in, a major outcome here is the reduction of today's expensive collateral buffers — users and insurance policies against the inefficiencies of the Old World."

In her closing remarks, Chakar said that a major focus will now be the advancement of the regulatory and legal framework for the digital operating model.

"There is work to be done to ensure that regulators across all major jurisdictions are fully informed of the intricacies of the technology and data solutions that you've seen today," she said. "This will be a team effort — a partnership among all our participants."

In the coming months, DTCC is planning to host a legal roundtable to provide market participants with the insights of the work done to date. The company will also engage with industry bodies to achieve consensus around data standards, best practices, and all important components to encourage interoperability.

"We must continue to work together as an industry to advance at a pace towards productionising the operating model," Chakar emphasised. "Only then will we realise all the benefits shown today."

DTCC aims to bring the industry together and facilitate the necessary debate through its Digital Advisory Council, listening to stakeholders' feedback and collaboratively designing the right solution.

Chakar concluded: "We see this as a key industry milestone for the digital collateral movement, taking us a step closer to our mutual goal of a digital-first future. The digital benefits are both extensive and accessible. Now it's up to us as an industry to realise them by collaboratively executing on the right operating model."

Double trouble: How political risk complicates securities lending amid economic uncertainty

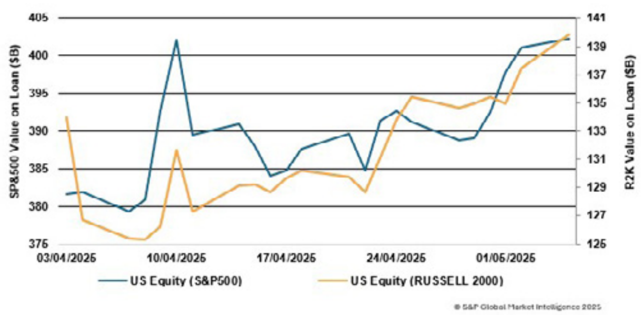
Nicole O'Donnell, product specialist, securities finance at S&P Global Market Intelligence, provides a review of the securities lending market following key movements in the political landscape

Political uncertainty has become a significant influence on market valuations, especially when combined with economic and geopolitical risks. This quarter, the dynamics of securities lending activity have mirrored investor sentiment in response to recent political shocks, creating notable market volatility and strategic repositioning.

The US government's recent implementation of tariffs on global imports triggered a sharp sell-off, with the S&P 500 and FTSE indices declining over 10 per cent and 6 per cent respectively, marking their worst trading days since the pandemic in 2020. Commodities also suffered, with oil prices hitting a four-year low. In April, short interest across the S&P 500 rose approximately 7 per cent, reflecting heightened caution among investors.

The political landscape is intricately tied to market dynamics. In Canada, Mark Carney's Liberal Party retained power in parliamentary elections, resulting in a muted market reaction. The TSX rose slightly, as investors hoped for clarity on trade relations with the US. Voters sought reassurance from Carney's international credibility and his commitment to addressing trade tensions, highlighting the connection

Figure 1: Value on loan SP500 vs R2K



between political stability and market performance. However, securities lending revenues from Canadian equities fell 19 per cent year-over-year (YoY) in April and 20 per cent month-over-month (MoM), as average fees declined by 7 basis points compared to March.

In Singapore, the general election occurred amid rising geopolitical tensions and economic uncertainty stemming from US trade policies. The ruling People's Action Party (PAP) secured a decisive victory, reinforcing investor confidence in political stability. Despite the government's introduction of targeted subsidies to support domestic businesses, short interest across Singaporean equity benchmarks remained steady, indicating that investors anticipated minimal shifts in market dynamics. Notably, while securities lending revenues from Singaporean equities increased by 23 per cent YoY, they declined by 6 per cent MoM, as average fees dropped to their lowest level since January 2024.

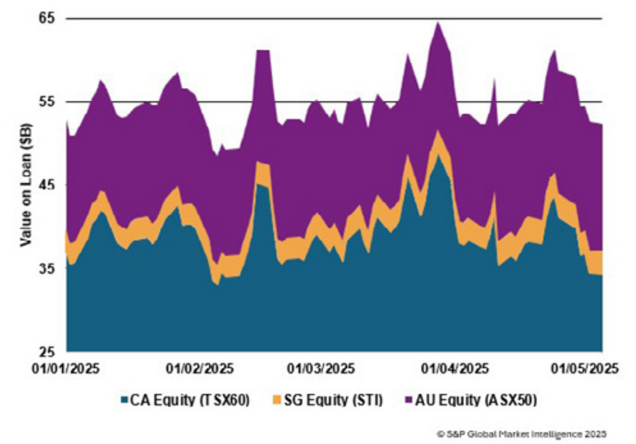
Australia's Prime Minister, Anthony Albanese, faced similar challenges, opting for a non-retaliatory approach to US tariffs, emphasising policy continuity amid global uncertainty. The Labour Party's decisive electoral win reinforced Australia's preference for cooperative trade relations over interventionist policies.

However, during April, securities lending revenues in Australia declined by 13 per cent YoY US$8 million, as average fees plummeted to their lowest level seen in over 15 months, at just 44bps. Although this stability has curbed broad-based volatility, the potential for increased regulatory scrutiny has prompted a slight rise in short positioning, with investor sentiment cautiously optimistic about a pro-growth agenda.

Political uncertainty often leads to fluctuating investor sentiment, significantly impacting stock prices and trading volumes. In these turbulent times, the role of data-driven decisions is paramount. Securities lenders must remain vigilant, as increased market activity creates both risks and opportunities for short selling strategies. By leveraging data insights, lenders can navigate these dynamic conditions, refining their strategies to capitalise on emerging opportunities while managing associated risks effectively.

In this context, prime brokers are experiencing heightened volatility and increased client demand for margin financing, driven by the surge in short selling. The demand for liquidity and leverage underscores the critical importance of timely data on rates and availability. By utilising these insights, lenders and prime brokers can better navigate the evolving market landscape, optimising their strategies to seize emerging opportunities while effectively managing risks.

Figure 2: Value on loan



As institutional investors tactically reposition and funds seek re-entry points following a brief economic recovery, markets will continue to assess the long-term implications of the tariff regime. The interplay of political shocks and market volatility further emphasises the necessity for data-driven decision-making.

With short interest fluctuating and securities lending revenues rising MoM compared to 2024, lenders and prime brokers turn to more data-driven approaches to fine-tune collateral strategies, manage counterparty exposures, and capitalise on yield opportunities in an active borrowing market.

In summary, the convergence of political, economic, and geopolitical uncertainties creates a complex environment for investors. By embracing data-driven strategies, securities lenders can turn challenges into profitable opportunities, demonstrating the resilience and adaptability required in today's markets.

A headfirst dive into the unknown

Dani Lazard, product associate at TreasurySpring, speaks with Daniel Tison about his experience as a young professional starting up in the fast-paced and ever-evolving securities finance industry

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

I joined TreasurySpring through the Jumpstart programme, which places graduates into high-growth startups. I have always had a passion for financial markets, and TreasurySpring's mission to unlock wholesale money markets for a broader client base sparked my interest. Particularly, the opportunity to be part of a team that is shaping the future of cash investments in a rapidly evolving space was a major draw.

Navigating my path into securities finance, I dove headfirst into a relatively unknown area of the market. Through hands-on experience, repo education courses, and mentorship, I quickly built up an understanding of the space, but also an appreciation of the complexity and interconnectivity of the securities financing industry. The supportive and knowledgeable team has been instrumental in helping me grow, and I have been fortunate to contribute meaningfully — whether it is helping onboard counterparties, becoming a full-fledged member of the trading team, or even organising regular team-building events.

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

The ever-changing nature of the market is one of the most exciting aspects of my role. Securities finance is fluid, dynamic, and constantly evolving, which means each day brings new challenges and learning opportunities. The fast-paced environment keeps me engaged, and I really enjoy the variety and unpredictability.

A particular experience that has been rewarding is my involvement in the pricing and trading execution of our Fixed-Term Funds. I have had the chance to become an integral part of the trading team, which has been an amazing learning opportunity with significant exposure so soon in my career.

Onboarding counterparties and helping grow the firm’s presence in the market has been a key highlight, along with organising exciting team-building events, which have helped strengthen our team culture and foster collaboration.

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

At TreasurySpring, there is a clear focus on personal and professional growth. I have benefited from a mixture of mentorship, on-the-job experience, and external education opportunities. Through direct hands-on experience within meaningful, value-add projects, I have been able to grow quickly in my role and feel like I am making an impactful difference within the firm.

Additionally, the company supports continuous learning through conferences and courses, which have further expanded my knowledge of the broader market and specific areas like repo. The supportive culture here means I have plenty of opportunities to ask questions, learn from more experienced colleagues, and receive guidance as I continue to develop.

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

One common misconception about working in finance is that it is all about numbers and crunching data without much collaboration or creativity. In reality, the industry, especially in areas like securities finance, is highly dynamic and requires a blend of both technical skills and creative problem-solving.

As a young professional, I have found that embracing a growth mindset is essential. Being open to learning from others and acknowledging that no one has all the answers helps me tackle the challenges I face daily and allows me to contribute meaningfully to the team. I try to encourage others to take a similar approach by showing that teamwork and creativity are just as important as technical know-how in this space.

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

In the next five years, I hope to continue growing within TreasurySpring, deepening my expertise in areas like counterparty relationships and trading execution. I am excited to enhance my commercial knowledge and gain a deeper understanding of the more specialised aspects of the market and evolving infrastructure.

I am also eager to gain more leadership experience and continue refining my skills in client management, as I believe building long-term relationships with key counterparts will be essential as I progress.

Staying on top of industry evolution and reforms will not only provide opportunities for my personal growth but also drive strategic advantages for us at TreasurySpring, contributing to our growth and the broader industry's development.

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

My advice would be to embrace continuous learning and seek out opportunities to grow. The financial industry is fast-paced and ever-evolving, so staying curious and open to new experiences is essential and exciting. Whether it is through formal education, seeking mentorship, or learning through hands-on experience, growth is a constant process.

Additionally, do not be afraid to get stuck into projects outside your comfort zone. The best learning often happens by diving into challenges and being open to making mistakes that you learn from. Surround yourself with a supportive team and do not be afraid to ask questions — ask a lot of questions, even if they lead to more questions, as they often do. ■

Dani Lazard

Dani Lazard is a London-born entrepreneur with a keen interest in financial markets. He achieved first-class honours in business analytics at the University of Leeds, where he also started a business in sports merchandising during Covid-19.

After graduating, Lazard joined TreasurySpring through the Jumpstart programme, where he found a passion for securities finance. Over the past two years at the firm, he has been actively involved in trading and execution, as well as working to bring new counterparties to the platform.

In his free time, Lazard can usually be found not too far from a football pitch or a padel court.

Clear Street adds Vasani

Clear Street has appointed CJ Vasani as director of equity finance business development.

Based in Boston, Vasani brings 20 years of experience in financial services to his new role.

He joins from Fidelity Investments, where he was a co-founder of PB Optimize, a platform designed to enhance portfolio finance, treasury, and investment analytics workflows for hedge fund clients.

Under his leadership, PB Optimize scaled from four to more than 250 clients, improving operational efficiency across the board.

Between Fidelity Investments and Morgan Stanley, Vasani held a range of leadership and client-facing roles focused on financial technology, relationship management, and product development.

Throughout his career, he has partnered intimately with hedge fund clients to develop tailored solutions, deepening client relationships and driving measurable outcomes.

MarketAxess picks Lee

MarketAxess has selected Spencer Lee as head of client products, Americas, effective 12 May.

Lee brings over 20 years of experience in fixed income and electronic trading to his new role, where he will be responsible for business and product management across dealer and client solutions.

He joins the company from TS Imagine, where he served as chief markets officer and head of fixed income for two years. Prior to that, he co-founded Agilon Capital, a systematic credit hedge fund.

Commenting on the appointment, Chris Concannon, CEO of MarketAxess, says: "[Lee] will bring tremendous fixed income trading experience, market structure expertise, an invaluable buy-side perspective to MarketAxess and will further product advancement for our clients."

Lee adds: "I am excited to be marking the next chapter of this journey at MarketAxess, as I believe my time as a trader and experience in helping adapt EMS technology to the fixed-income markets have uniquely prepared me to lead this product team in the next phase of innovation."

ISSA selects McKenny

The International Securities Services Association (ISSA) has appointed Julia McKenny as the new CEO.

She will take on the position on 16 June from Colin Parry, who is retiring.

McKenny's career in securities services began at J.P. Morgan in 2004, followed by regional and global roles with Northern Trust, State Street, and Standard Chartered.

After returning to London, McKenny further expanded her expertise through leadership positions at TMF Group and Accenture, and worked with the prime broking team at Morgan Stanley.

Her career highlights include serving as general legal counsel, spearheading strategic advocacy initiatives, and ensuring regulatory compliance within complex international frameworks.

Commenting on her appointment, McKenny says: "I believe that this is a fantastic role with an incredible opportunity to have a significant impact in the industry.

"I look forward to engaging with our members, other associations, and potential members to improve the outcomes of the securities services industry and its clients."

Beelaerts departs BNP

Christophe Beelaerts has departed BNP Paribas' Securities Services after spending nearly two decades with the firm.

Based in Bahrain, Beelaerts most recently served as head of BNP Paribas' Securities Services Middle East.

Previously, he was also the regional head for India, based in Mumbai.

Between 2011 and 2014, Beelaerts served as chief financial officer and head of business development at Sundaram BNP Paribas.

He first joined BNP Paribas' Securities Services in 2004 as head of fund administration.

Commenting on the move, Beelaerts says: “The past 19 years with BNP Paribas have brought an invaluable experience in my life, as well as great souvenirs and stunning achievements.

“I wanted to thank especially my colleagues and team mates in Luxembourg, India, UK, and in the Middle East, but also in many other countries, for the amazing moments we had during all these years together.”

King leaves S&P Global

Karen King is to leave S&P Global Market Intelligence after 20 years of service.

Based in Hong Kong, King leaves the firm as head of data solutions sales for APAC.

While she was predominantly positioned in Asia, King also worked within the company’s London and New York offices earlier in her career.

She began her two-decade-long tenure at S&P Global Market Intelligence prior to the company's numerous mergers and acquisitions, starting in what was then Data Explorers.

King held a number of senior positions at the company, including APAC head of equity business development, and head of sales and Hong Kong office.

Securities Finance Times recently spoke to King on the key securities lending markets in Asia capturing the industry’s attention — she also provides a global overview of the market.

Earlier in her financial career, King was a securities lending trader at Goldman Sachs between 1998 and 2003.

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Published by Black Knight Media Ltd