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The primary source of global securities finance news and analysis
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A CLOSER LOOK AT LAPSED LEIs

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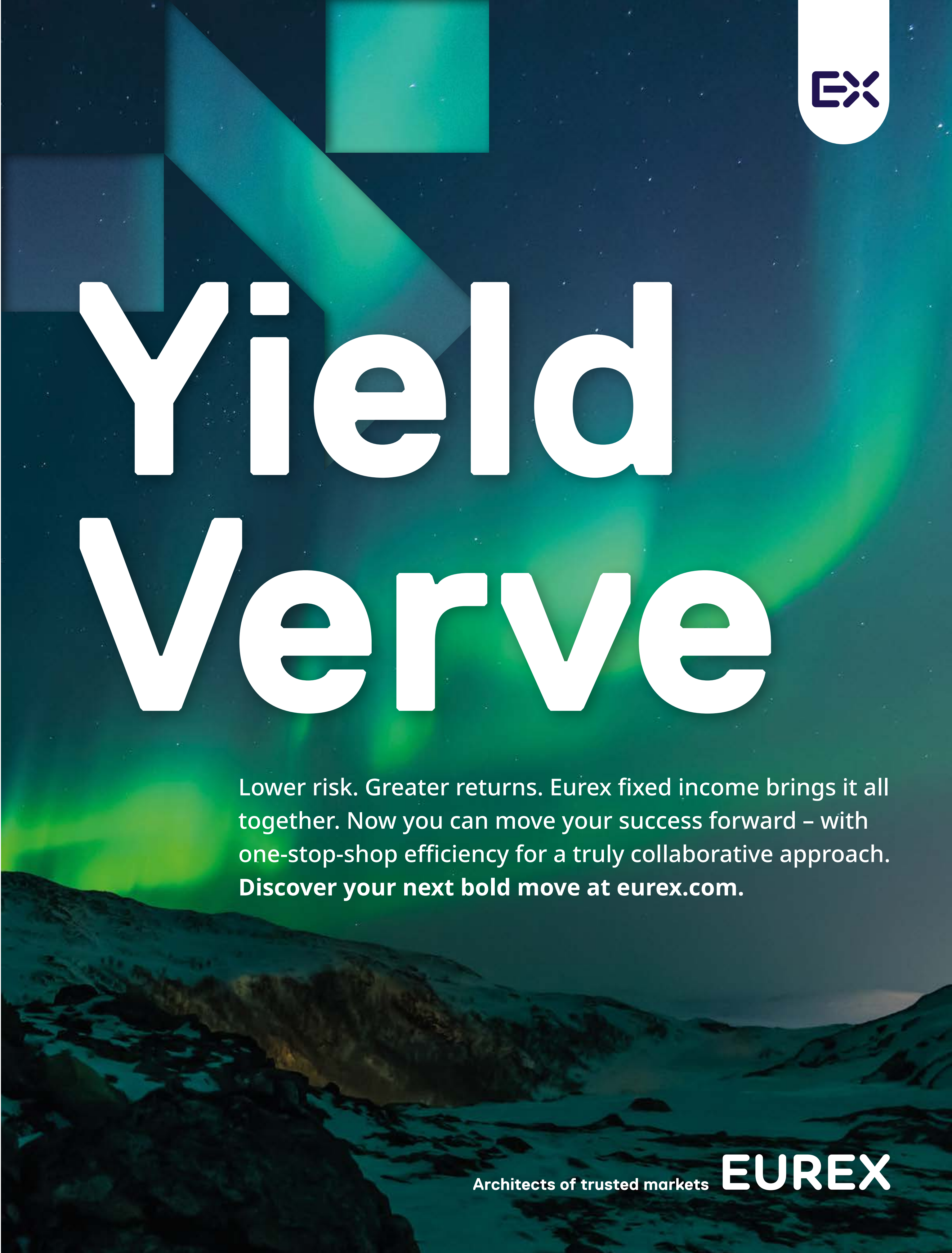
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J.P. Morgan to open Tokyo agency lending desk

J.P. Morgan has confirmed plans to open a new agency lending trading desk in Tokyo next month to serve its onshore clients and the Japanese securities lending market.

The desk will be led by former-Natixis executive director Kasumi Shibano, who is set to join J.P. Morgan in December.

As Japan's new head of agency securities lending trading, Shibano will report to Simone Broadfield, head of agency securities lending trading for Asia Pacific (APAC), who is based in J.P. Morgan's Hong Kong office.

SFT understands that the US' largest bank tapped Shibano for her wealth of experience and onshore connectivity, having led equity finance trading teams throughout her extensive career, including her most recent role with the French investment bank, where she has served from 2013 until January 2018.

In her nearly three-decades of experience in financial markets, Shibano has also held senior roles with Barclays, Macquarie Group, and UBS, after a decade with Morgan Stanley as vice president.

J.P Morgan says the move will position it as the only international lender to have an onshore presence in Japan, reflecting the strategic importance of APAC's largest securities lending market to the bank's regional agency securities lending and securities service businesses.

The Tokyo desk will become our J.P Morgan's third APAC trading location, complementing the desks in Hong Kong and Sydney.

The J.P. Morgan APAC trading teams manage equities, fixed income and cash reinvestment on behalf of a global client base.

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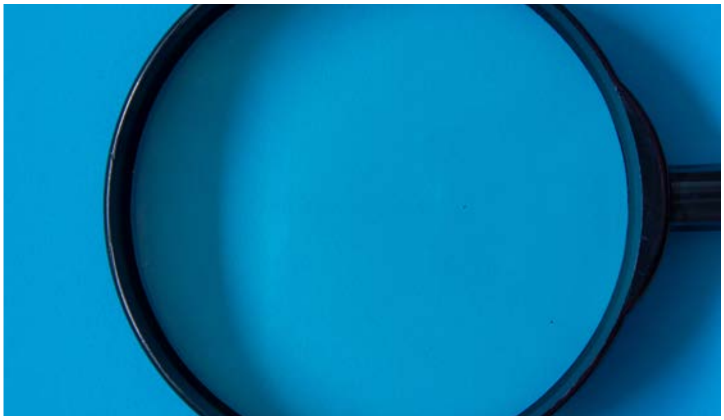

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Union Investment reappoints State Street to provide collateral services

State Street has extended its existing collateral services relationship with Union Investment for an additional five years, including an option for further extension.

Union Investment has worked with State Street for the past eight years.

As part of the renewal, State Street will continue to provide collateral management services, with bilateral and triparty collateralisation, for the complete mutual fund range of Union Investment in Germany and Luxembourg.

Stefan Gmuer, CEO of State Street Bank International, Munich, says: “By providing specialised solutions to our clients, we’re helping them streamline investment operations to contain costs, reduce risk and continue adding value to their business.”

Oliver Reinki, managing director (Geschäftsführer) at Union Service-Gesellschaft, added: “We are confident that extending this partnership will enhance our ability to service our clients, as we continue to benefit from State Street’s products and services and dedication to service excellence.”

EU and UK risk SFTR data blackout post Brexit

Financial market regulators in the UK and Europe will be shut-off from accessing each other’s transactions data reported under the Securities Financing Transaction Regulation (SFTR) if a bilateral equivalency decision isn’t reached before the Brexit transition period ends on 31 December.

Negotiations between the European Commission and Her Majesty’s Treasury on post-Brexit equivalency for 40 areas of EU law began in the first half of the year but delays caused by the pandemic and other political and technical issues means a full sweep of bilateral agreements is unlikely to be reached this year.

The lack of continuity on either side of the English Channel will ratchet-up market uncertainty, raise legal barriers between counterparties and reduce regulatory oversight ahead of what could be a crucial bounce-back period for capital markets after Europe grapples with the resurgence of COVID-19 during the winter months.

A spokesperson for the European Securities and Markets Authority (ESMA), which provides technical support to the commission for the negotiations, tells SFT that the regulator expects to make progress, but an agreement under article 19 of SFTR will “probably not [be signed] before 31 December”.

In this instance, both regulators will lose their rights to the other’s treasure trove of SFT data, being reported by buy- and sell-side entities to assess potential systemic risks building in the market.

The blackout would continue until a bilateral equivalency agreement is reached under article 19 or a memorandum of understanding (MoU) is signed under article 20. An MoU application can be instigated by either authority but ESMA says it is “currently not a priority”.

The commission began its equivalence assessments in April by sending more than 2,500 pages of questionnaires to the UK. The documents were returned in July but the analysis and follow-up discussions on these responses are “ongoing”, according to the ESMA spokesperson.

This week, the chancellor of the exchequer Rishi

Sunak outlined a bundle of regulatory equivalence decisions that the UK was willing to offer the European Economic Area (EEA) states. The list included the Central Securities Depositories Regulation, minus the settlement discipline regime, the European Market Infrastructure Regulation and the Short Selling Regulation.

On the EU side, the only equivalency decision for UK-based firms is a time-limited mutual recognition period for three clearing houses which runs until 30 June 2022.

Currently, the EU and UK are pointing to each other as the reason why, with less than two months to go before the breakaway, a more comprehensive set of bilateral equivalency agreements are not in place.

Speaking in the House of Commons on Monday, the chancellor said: “We’re ready to continue the conversation where we haven’t yet been able to take decisions. But, in the absence of clarity from the EU, we’re acting unilaterally to provide certainty to firms both here and in Europe.”

A separate written statement from Treasury reiterated that it is “awaiting clarity from the EU about their intentions”, without offering further details on what is needed.

Meanwhile, an ESMA spokesperson states that “ultimately, the timing and the outcome of equivalence assessments will depend on UK position and commitments, and the EU’s interests”.

The spokesperson notes that, regardless of what is offered by the UK to EU firms, the commission is under no obligation to grant comparative equivalency.

They further highlight that the talks are framed by concerns in Brussels that the UK has indicated its intentions to diverge from EU standards in certain areas. Although, they highlight: “The nature of this divergence is not clear yet.”

ESMA publishes first reports on CSDR implementation

The European Securities and Markets Authority (ESMA) has published its first two reports on the implementation of the Central Securities Depositories Regulation (CSDR).

The first report, which covers central securities depositories’ (CSDs) cross-border services and handling of applications as well as internalised settlement, explains that most respondents did not detect any major variation in the provision of cross-border services since the entry into force of CSDR.

However, it suggests that respondents do foresee a potential increase in the coming years with the progressive harmonisation of the regulatory framework.

In addition, respondents say they see challenges to the development of cross-border services, such as the absence of harmonisation of securities law across the EU, and the application process to provide services in another member state as currently set out in article 23 of CSDR.

In terms of handling applications submitted in accordance with article 23(3) to (7) of CSDR, authorities and market participants agree on the complexity and lack of clarity of the application process through which CSDs have to go to be able to provide notary and central maintenance services in other member states.

Highlights include the determination of the relevant law, the assessment of the measures the CSD has to take to comply with the law of the host member state and the prerogatives of the host member state competent authority in the process.

The report on cross-border services and handling

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of applications highlights the findings related to the provision of services by CSDs in other member states and considers responses to the ESMA survey addressed to national competent authorities (NCAs), CSDR relevant authorities and trade associations, in June and July.

Meanwhile, the second report on internalised settlement presents the findings related to the settlement activity which does not take place through a securities settlement system operated by a CSD in the European Economic Area.

It takes into account the responses to the ESMA survey on internalised settlement conducted in June and July, and also includes an analysis of the internalised settlement data based on the quarterly reports sent by settlement internalisers under article 9 of CSDR for the period Q2 2019 to Q3 2020.

Although no major risks have been identified during the period covered by the report, NCAs have identified some risks, the most common being operational risk and custody risk.

ESMA identifies that most challenges seemed to be in connection to the technical implementation of the reporting regime, which required significant IT changes at the level of settlement internalisers as well as at the level of the NCAs and ESMA.

Some of these challenges were: onboarding settlement internalisers to the NCAs' reporting systems, and uploading the reports onto the ESMA IT system, the correct implementation of the ISO 20022 XSD/XML format by settlement internalisers and the implementation of the numerous validation rules.

In terms of measures to mitigate those risks, ESMA refers to the adequate identification of the clients' accounts involved, and the improvement of the operational processes.

ESMA explains that to support the implementation process, ESMA has provided additional clarifications through supervisory convergence measures, including the ESMA guidelines on internalised settlement reporting, as well as Q&As.

Given that this is a new reporting regime, and that data quality checks are still ongoing, ESMA acknowledged that data covering a longer period of time would be needed in order to have a clearer picture regarding internalised settlement trends.

According to ESMA, it is useful to use the existing data to set a benchmark for future assessments.

Finally, ESMA highlights the importance of continuing to monitor internalised settlement, in order to assess if this activity should be regulated in the future.

The report notes that attention would focus on the extremely-high values and volumes of internalised settlement, as well as the high level of concentration shown by the data reported by settlement internalisers under article 9 of CSDR.

ESMA suggests that, as a minimum, custodians' clients should be informed of the risks and costs associated with the place of settlement at the level of a securities settlement system operated by a CSD versus internalised settlement.

Kaizen Reporting acquires Single Rulebook

Kaizen Reporting has acquired Single Rulebook, a software solution for the management of regulatory rules which was formed last year.

Single Rulebook provides a solution that lets firms search, share and manage the multitude of complex regulatory rules on a single digital platform.

Kaizen explains the solution offers firms a search and navigation functionality that set out visual guidance on interdependent regulations and the correlations between the various regulatory rules.

Additionally, Single Rulebook can be integrated into a firm's existing policies, systems and controls.

Dario Crispini, CEO of Kaizen Reporting, comments: "The acquisition of Single Rulebook further enhances our offering to compliance teams struggling to cope with the burden of regulatory rules and ensures that they are not only able to interpret them properly but also report on the actions and course they have taken internally."

Single Rulebook was established by Wim Nelen, a former regulator and head of compliance, and Stefan Hendrickx, a technology entrepreneur and expert in natural language processing.

Commenting on the acquisition, Nelen, CEO of Single Rulebook, says: "We are thrilled to be part of Kaizen.

"Having recognised a fundamental gap in the market for a software that helped firms manage the numerous and ever-changing regulatory rules we designed and built Single Rulebook."

"By joining Kaizen we will be able to offer clients a full range of services to help them reduce their regulatory risk. What differentiates us from other firms is the software's ability to search, navigate, collaborate and integrate with a firm's existing policies, systems and controls," Nelen adds.

J.P. Morgan go live on WeMatch US platform

Societe Generale and J.P. Morgan are among the first tier-one dealers to go live on WeMatch's US total return swap (TRS) platform, with an additional 14 firms expected to onboard in the coming months.

The platform, which went live in October, allows US dealers to match, negotiate, import, and manage lifecycle and post-trade events on TRS on US equities.

J.P. Morgan's head of prime finance synthetic trading and financing for North America, Michael DiCesare, says his bank has been a "a long-time supporter of WeMatch" and he was drawn to the US platform as a way to gain greater efficiencies and straight-through processing for his derivatives business.

“This is an exciting step in their journey to leverage technology to reshape the way market participants interact with one another in TRSs,” DiCesare adds.

Elsewhere, Albert Loo, deputy head of sales for global markets at Societe Generale, says he is excited to be part of WeMatch’s “important milestone” and will continue to contribute to the platform’s expansion.

Loo continues: “We’ve worked closely with them on this development and feel this is an important step forward to improve dealing processes on TRSs across the cycle as well as to reinforce our US equity platform operational efficiency.”

WeMatch’s securities finance platform initially went live in Europe, the Middle East and Africa in 2017 and has so far matched more than $500 billion of interests and currently manages average balances in excess of $35 billion.

On 15 July, WeMatch hit a $20 billion record high on the ongoing balance matched and managed in its securities financing platform.
This balance includes TRSs on both naturals and financing, securities lending on both specials, general collateral, and upgrades/downgrades, and repos.

Joseph Seroussi, co-CEO at WeMatch, comments: “Thanks to the help and input from our first batch of users, our technology has been adapted to the specificities of the US market, where automation is greatly needed to improve heavy manual workflows.

“Our plug-and-play solution offers a lot of flexibility, instantly reducing operating risks and costs.”

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Our plug-and-play solution offers a lot of flexibility, instantly reducing operating risks and costs.”

Greater automation could slash trade processing costs by a quarter, says DTCC

The Depository Trust & Clearing Corporation, the market infrastructure for the global financial services industry, has released the results of a survey that has identified how certain post-trade processing costs for cash securities at large broker-dealer firms could be reduced by 20-25 percent through automation.

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DMA selects SteelEye for MiFIR reporting

South African brokerage DMA has selected SteelEye to enhance its regulatory reporting, trade surveillance and best execution.

It initially set out to gain enhanced control over its transaction reporting under the second Markets in Financial Instruments Directive and selected SteelEye because of the end-to-end visibility and high degree of process automation its service offers.

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BNY Mellon's MarginConnect completes non-cleared derivatives workflow for buy-side

BNY Mellon has formed MarginConnect to enable buy-side investment managers to take full control over the collateralisation of non-cleared derivatives.

The new margin messaging capability is the result of a collaboration between BNY Mellon's collateral segregation business and the margin messaging utility AcadiaSoft.

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AcadiaSoft-TriOptima UMR phase five soft-launch draws a crowd

AcadiaSoft and TriOptima predict that nearly a quarter of all 250 firms in-scope for phase five of the Uncleared Margin Rules will be signed up to their initial margin product by the end of the year.

Thirty-two firms are already on board for the soft launch which began on 1 September and will run until 31 August 2021. 25 more are due to onboard by the end of the year.

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First buy-side client inflation swap trades cleared at Eurex

Aegon Asset Management has become the first buy-side client to clear zero coupon inflation swap (ZCIS) transactions at Eurex Clearing, with J.P. Morgan acting as executing and clearing broker.

The Deutsche Boerse-owned central counterparty (CCP) offers ZCIS clearing for the eurozone Harmonized Index of Consumer Prices excl. Tobacco, the French Consumer Price Index, and the UK Retail Price Index.

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Winner: SFT editorial team honoured at State Street Institutional Press Awards

Securities Finance Times' (SFT) editorial team were among the winners of State Street's 19th annual UK Institutional Press Awards, with editor Drew Nicol winning the 'Best Editorial Comment' category.

SFT reporter Natalie Turner was also shortlisted for 'Journalist of the Year – COVID-19 commentary'.

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A closer look at lapsed LEIs

Natalie Turner reports

Despite regulatory compliance being an industry hot topic, the number of entities failing to renew their LEIs is on the rise, which spells trouble for reported transaction data integrity

The legal entity identifier (LEIs) is a simple but essential feature of the modern transaction reporting ecosystem. In recent years the number of LEIs has surged in the US, the EU and globally as the last of the post-financial crisis regulatory frameworks came into play.

The cheap and easily accessible 20-character alphanumeric code was adopted as a mandatory requirement by market overseers as a tool to cut through the tangles of large group structures and pinpoint who, exactly, was trading with whom.

One characteristic of LEIs is that, like puppies, they aren't just for Christmas, they're for life. However, unlike puppies, LEIs only require attention once a year when they need to be renewed. But, even this is too much for some firms.

The number of neglected LEIs globally that are now 'lapsed' due to a lack of renewal is steadily increasing. As of August, more than half a million LEIs were out-of-date and this figure is trending upwards. Moreover, the monthly number of LEIs lapsing is now outstripping the number of new issues.

This spells trouble not just for the entity itself but for its counterparties which will fail its reporting requirements under the alphabet soup of new regulations without a valid code for all the relevant parties it interacts with.

Darragh Hayes, director of LEI Worldwide, explains that lapsed LEIs have maintained a steady rate in correlation to new LEIs over the past three years.

Between January and August, the volume of global LEIs that are lapsed rose from 30.5 percent to 31 percent, according to LEI Worldwide data. On average this year 17,403 LEIs have lapsed per month, compared to the 16,390 new LEIs issued on average per month.

These numbers sound big but how serious is the problem really? "It's not ideal," says Steve Waite, chief marketing officer at Ubisecure, an identity services technology company.

"LEIs need to be renewed in order to maintain an accurate record of the organisation," he explains. "If an LEI lapses, no checks are being completed on what reference data may have changed. Improving the lapsed rate will ensure the global LEI database offers the most value to relying parties who are increasingly using the LEI database as a source of organisation credibility and know-your-customer."

Where are the neglectful parties?

Currently, the US is home to most LEIs and has the largest amount of lapsed LEIs. There are 117,825 lapsed LEIs in the US compared to a total of 239,261 overall LEIs in the market.

When it comes to lapsed LEI rate it is worth noting the US not only has the most lapsed LEIs because they are the largest user of the LEI, but they have the highest percentage of lapsed LEIs compared to other countries. The US has also been using the LEI heavily since 2012 so many of the older entities would have had lapsed LEIs going back years

Meanwhile, the UK has 158,460 LEIs of which 78,640 of which have lapsed. This is among the worst scorecards in Europe. Inside the EU performance seems better. Germany is the third-largest user of the LEI with 141,536 LEIs, of which just 26,160 are lapsed (18.4 percent). Less than half that of the UK and USA.

When it comes to the UK lapsed rates, there are a couple of things that may indicate why the UK has a higher lapsed rating than its German and Italian counterparts Hayes explains. This can include lack of education and awareness of the renewal requirement, regulations that require an LEI, but not specifically an active LEI, many entities set up in the UK for short term purposes, a lot of trusts in the UK, the LEI service provider that an entity chooses to partner with for their LEI requirements has a large impact on whether they will renew their LEI or not.

Hayes explains that this could be because of tighter adherence to EU regulations that require LEIs, such as the Securities Financing Transactions Regulation (SFTR), the second Markets in Financial Instruments Directive (MiFID ii) and the European Market Infrastructure Regulation (EMIR). "I say this because Italy who is the fourth largest user and also an EU member has 129,348 LEIs and just 27 percent are lapsed (35,082)".

In total, the EU has more than 10 reporting or transparency regimes that require an LEI and, as a result, at least two-thirds of the worldwide LEIs pertain to European Economic Area (EEA) entities.

What's gone wrong?

As usual, when manual processes are involved, the source of the problem is human error. But, there is a legislative angle to the problem as well.

Interpreting why LEIs are allowed to lapse, Ubisecure's Waite says: "Sometimes it's because the ownership of the task to renew the LEI changes, people change roles or move on from companies frequently, especially right now in the middle of a pandemic.

"Sometimes it's because the regulation that dictated the initial LEI registration required the LEI only once. Often, like many annual tasks, it's just that people forget," he concludes.

Moreover, Hayes highlights that management in larger organisations with large amounts of subsidiaries where each entity needs an LEI often there is no central point of management. That is why it is smart to outsource group management of LEIs to a registration agent. Often people change roles in companies, and the person who registered the LEI initially may have moved or not left details of where the LEI is registered, meaning it can "slip between the cracks".

Who are the neglectful parties?

Hayes explains that hedge funds, funds and trusts are more likely to let their LEIs lapse as they would have applied in 2018 upon the introduction of MiFID II in order to become compliant and after that may not have needed to renew it, or are unaware that they needed to renew it. "Commonly we see entities apply for an LEI for a one-time transaction, for example, a special purpose vehicle that may now be dormant and so they do not feel the need to renew the LEI that it got last year," he adds.

If that entity is buying or selling securities, they may only need the LEI for that transaction, and not necessarily keep the LEI active longer than 12 months. A mid-sized company such as an LLC or LTD would be engaging in regular transactions and have quarterly reporting duties so would be more invested in maintaining an active LEI due to various regulations and policies.

Darragh explains: "This is what we have seen from our own database of clients". Hayes also notes that LEIs under these entity types tend to lapse because the LEI may be needed to begin trading, or conduct a single transaction. It then may not be necessary to keep it active.

What can be done?

The recurring themes seem to be a lack of knowledge or awareness of the LEI needing to be renewed, compliance misunderstanding and a lack of knowledge that they can outsource to a registration agent who will ensure the LEI does not lapse and focus on maintaining it.

Waite explains that this is the problem for many organisations, they should not be so disregarded and should fall under compliance controls, but the reality is that sometimes they do not.

"We see this across other industries where domains and digital certificates (also annual renewal items) often get forgotten about and left out of compliance controls only to then cause devastating consequences," he says.

"Our advice is that organisations should take LEI renewal very seriously, as there are fines now happening, and they should be part of the organisation's compliance controls. Of course, LOUs can make it easier for organisations to renew, such as multi-year options."

Ubisecure has seen 250,000 new LEIs issued in the past 12 months and RapidLEI has issued a fair percentage of those, Waite explains, adding that he expects to see overall lapsed rates fall as the numbers of LEIs under its management increases.

Elsewhere, the Global Legal Entity Identifier Foundation is working to reduce the rate of lapsed LEIs. It has introduced the new concept of the conformity flag, which will act as an indicator of the accuracy of an LEI record and will highlight how well an entity's LEI complies with overall conformity.

When the flag is active the LEI is in full conformity. This will encourage LEI owners to keep their LEI active and help indicate where one needs updating. In order to obtain a conformity flag, the LEI will undergo a series of checks against reporting criteria which will be published in the coming months. This is to be implemented during 2021, and in due course, it will be added to all LEI records.

Waite believes a big impact will be made when the LEI conformity flag comes into effect. "Maintaining an active LEI is required to achieve conformity, and you'll see LEI Issuers like RapidLEI, and our partners, provide services that allow LEI conformity to be queried and asserted," he states.

Another solution would be to make regulations require that the LEI be renewed in order to keep the entity reference data accurate and up to date. The obligation to renew will certainly help the LEI achieve more widespread use cases.

Why are they important?

According to the European Securities and Markets Authority (ESMA), the use of the LEI also generates tangible benefits for businesses including simplified regulatory reporting; database management free of charges; more accurate calculation of counterparty exposures; improved risk management; and increased operational efficiencies. In this context, the LEI will provide benefits in terms of costs and new business opportunities, as a reliable, open, standardised, and high-quality legal entity reference data shared across the marketplace.

ESMA applies the same approach across the European Markets Infrastructure Regulation (EMIR), Markets in Financial Instruments Regulation (MiFIR) and Securities Financing Transactions Regulation (SFTR). This means that the LEI is required to be renewed and up to date only for the entities that are directly subject to the reporting obligation. Therefore, if the LEI for any of these entities has lapsed, the report will be rejected.

Meanwhile, the UK's Financial Conduct Authority (FCA) says it is seeking to identify investment firms failing to meet their obligation to report transactions and will take action, including enforcement action where appropriate.

To further this aim, the FCA has implemented a validation rule in its Market Data Processor to reject transaction reports submitted by investment firms with an LEI in lapsed status. This ensures that investment firms which execute transactions renew their LEI on an annual basis.

What is an LEI and why does it need renewing?

A legal entity identifier (LEI) is a 20-character code that is based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). LEIs are used as a reference to important information that offers transparency when taking part in financial transactions such as trading with stocks, bonds or foreign exchange. LEIs, like other identifiers, are needed by firms to fulfil their reporting obligations under financial regulations and directives such as the European Markets Infrastructure Regulation, Alternative Investment Funds Directive Central Securities Depositories Regulation and Securities Financing Transactions Regulation, to name a few.

Once a legal entity obtains an LEI code, the code is assigned to that legal entity for its entire life.

The purpose of renewal is to ensure the data is current. If a company changes their address or trading name, it should be updated on the LEI immediately, but if not, it will be double-checked upon renewal by a firm such as LEI Worldwide. This is paramount to maintaining high quality, reliable data.

Connecting the dots in securities finance and collateral

Igor Salzgeber
Managing director, securities finance & collateral product group
FIS

Igor Salzgeber outlines how FIS has brought together all securities finance and collateral products into a single group that addresses the securities finance value chain and end-to-end lifecycle

How has FIS adapted to the dramatic changes in the securities finance and collateral markets in recent years?

The reaction time to changing market conditions has become shorter and shorter over the past few years. This requires more proactive thinking and more flexible solutions that can be enhanced and complemented with new components. Also, our clients are some of the biggest financial organizations in the world, and we have a responsibility to not only support their technology needs but provide industry expertise.

So, we need to be sufficiently ahead of the curve to deliver what our clients need, when they need it. By moving all our related securities finance and collateral products and resources into a single group, we are reflecting the direction of travel in the industry.

Our combined suite of products and services enables us to cover a broader spectrum of the securities finance and collateral value chain and provides our clients with integration across the front, middle and back office. We are also seeing a much higher demand for the cloud delivery of our platforms as the pandemic has proven the importance of infrastructure resilience and high availability. Leveraging our scale to provide such holistic offerings is core to our position as a trusted partner to the market, not just another vendor.

What innovation and modernisation is happening within the securities finance group?

On modernisation: the FIS securities finance product group is actively building the next generation of market-leading platforms. These are cloud-based and allow for more informed trading decisions through smart integration with our intraday market data. This supports our clients' aggressive growth plans by featuring higher trade automation with open application programming interfaces and standardised market connectivity. We are also investing in process automation of front-, middle- and back-office functions and post-trade processes across the securities finance and collateral solution suite.

In terms of innovation: we launched a process to actively drive innovation when we restructured the securities finance and collateral business entities into a single homogeneous product group earlier this year. The newly formed product group went through an intense period of discovery meetings with a number of industry exponents, clients and analysts to a) reconfirm our understanding of the key challenges the securities finance & collateral industry is facing, b) validate their respective priorities and urgency, and c) collaborate on the design of new solution components.

This outside-in approach ensures that we focus on real market needs. The innovation projects in which we are currently investing, leverage recent investments our company made in advanced technologies such as artificial intelligence and blockchain. For instance, FIS recently signed a partnership agreement with C3.ai, a leading provider for enterprise-scale AI applications and accelerating digital transformation solutions and products. The first results of this cooperation are targeted to be brought to market in Q2 2021.

The innovations within our securities finance and collateral solution suite leverage a new simplified domain model with lean and 'simple-to-deploy' components. Their main value-add resides in smarter inventories that result in greater leverage of the universe of tradable assets, higher trade automation and more informed trading decisions thanks to machine learning algorithms.

What does this mean for FIS securities finance and collateral clients going forward?

The decision to align our innovation strategies and resources is already benefiting our clients. For example, we are working with one of the largest European asset management groups to implement a platform for consolidating and optimising the global inventory of the funds' assets. Our platform drives an internal lending programme between the funds as part of a holistic inventory optimisation programme servicing derivatives collateral requirements, funding and securities finance. This will give our client significant cost savings and increased revenue opportunities as the funds balance securities-based margin requirements with growing liquidity demands.

In the US, we are partnering with one of the largest pension fund managers to provide a single platform for securities lending, repo and over-the-counter (OTC) and listed derivatives collateral management as well as providing the calculations and market data for the cleared and bilateral initial margin requirements. The availability of a comprehensive solution from a single partner was key to our client and an example of how the breadth and depth of FIS' capabilities create added value.

What types of market participants does your solution suite service?

Our securities finance suite combines the capabilities of our individual solutions within securities finance and collateral to cover every aspect of the securities finance industry: all transaction types and asset classes along every step of the transaction chain. The suite is designed to support the full spectrum of institutions that are active in the securities finance and collateral market: sell-side and buy-side, borrowers and lenders.

However, not every organisation needs the entire suite, so we have created powerful combinations of tools and services to satisfy enterprise-wide demands. For example, servicing the critical need to combine the collateral requirements of your OTC derivatives business with your securities finance programs. During a recent FIS webinar poll, 87 percent of organisations already have or are planning to connect these segments, making better use of their assets to meet their liabilities.

How important is market data in the effectiveness of the FIS suite?

I have been in the securities finance industry for many years and many aspects of it are unrecognisable from when I started out. The importance of intraday market data and associated trade analytics is just one of those significant changes that have helped the market develop and become more profitable. The industry has also made significant advances in technological capabilities and the automation of manual processes, which were required to manage the expansion of our business, both in terms of volume and complexity.

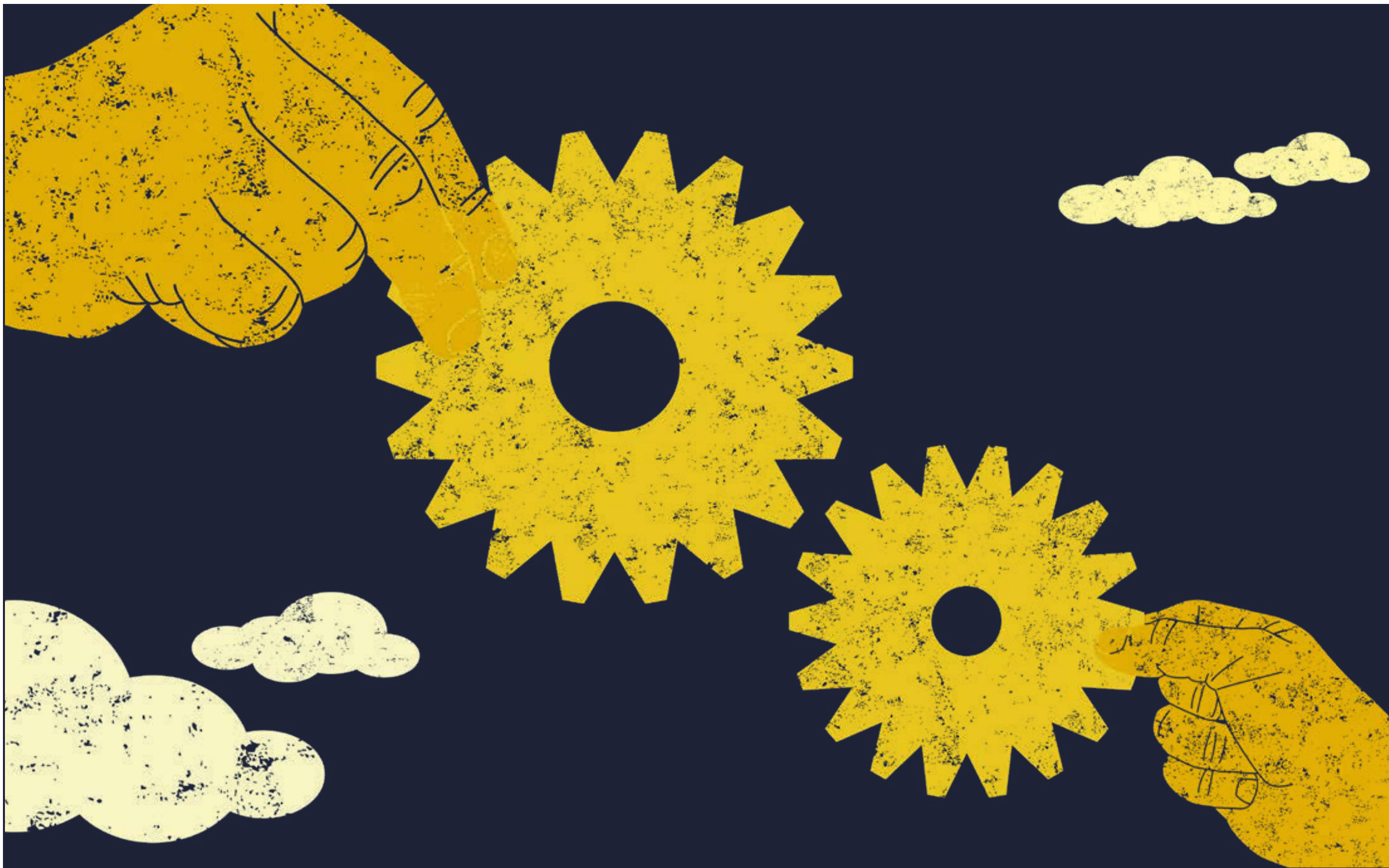
The management of the vast quantities of data that's now available has also demanded serious innovation to ensure that data is turned into actionable information. FIS has long been a leader in this space and is bringing new solutions to market this year with the latest version of Astec Analytics Lending Pit.

However, the real advantages are created when actionable information is brought into the center of the user's workflow. This is where the integration of market data and AI leverage supports automated trading, marking and optimisation. Doing more with less has been a mandate for the securities finance industry for some time; automation supported by intraday data is a key part of responding to that pressure.

> ***The innovations within our securities finance and collateral solution suite leverage a new simplified domain model with lean and "simple-to-deploy" components. Their main value-add resides in smarter inventories that result in greater leverage of the universe of tradable assets, higher trade automation and more informed trading decisions thanks to machine learning algorithms***

Igor Salzgeber
Managing director, securities finance & collateral product group
FIS

INTERNATIONAL SECURITIES LENDING ASSOCIATION



ISLA CDM working group

The association's common domain model has completed its pilot phase. SFT speaks to members of the ISLA working group to discuss how it went and what's next

Panellists

Saied Attarian, consultant- CDM modelling, REGnosys

Lee Braine, director of research and engineering, Barclays

Sunil Challa, director, group strategy, Barclays

Julian Eyre, managing director, Eyre & Co.

Chris Rayner, software engineer specialist, FIS

David Shone, digital transformation, consultant, ISLA

Ben Smith, product manager, Sharegain

Martin Walker, head of product securities finance and collateral management, Broadridge

Harry McAllister, information architect, BNP Paribas

The CDM pilot phase has just finished. What did that consist of and what are the expected results?

David Shone: The pilot, conducted with REGnosys, involved a sub-group of ISLA's digital working group working together to define the framework for a cash-collateralised, delivery-versus-payment (DvP) settled, securities loan. The process consisted of conceptual modelling starting from the Global Master Securities Lending Agreements (GMSLA) legal template, discussion and agreement with the working group, before encoding the product and transaction into the Common Domain Model (CDM). The pilot also looked at two fundamental business events in our asset class

Martin Walker: Modelling some of the key characteristics and life cycle events of securities lending trades to the point where it is possible to translate existing data formats into the CDM format. It should be well defined enough to do that translation from data in existing multiple systems.

Chris Rayner: FIS was pleased to support this important pilot project to complete a meaningful proof of concept in a compressed time frame. It's been a great example of how diverse players in the market can come together with a common purpose. The primary aim was to model the allocation process as applied by an agent lender during a trade execution. To keep the scope of the pilot achievable, only a cash DvP trade was considered. Initial thoughts about how to model settlement actions and collateral provisions were also discussed. By the end of the pilot, the working group has agreed upon a set of core concepts for trade execution and allocations that are modelled into the CDM.

Julian Eyre: While not responding to the details of the functionality that was delivered for the pilot, this phase validated the extensibility and flexibility of the core CDM model. The Rosetta application and the underlying artefacts in the platform enabled the rapid application development of a securities lending transaction model that starts to meet the requirements of the market.

How difficult was it to take a CDM for derivatives and adapt it for securities finance?

Walker: The work isn't finished but it has been a very good start. There are plenty of more complex scenarios to model. There are a lot of similarities between derivatives and securities finance in terms of product characteristics and complexity. However, securities finance does have a much greater focus on securities settlement, which presented some interesting challenges.

Harry McAllister: The CDM was originally developed in the context of over-the-counter (OTC) derivatives, however, the CDM is a highly-granular model which by design represents products in terms of core economic components and operations, which can, in turn, be composed into any number of higher-level representations. From the modelling point of view, assets such as cash and securities are also essential to derivatives – likewise concepts such as contract formation, settlement and allocation. Thus many of the building blocks required to construct the securities financing model – together with the methods for deploying them – already existed at the commencement of the exercise. What the technical team didn't have at the outset was a complete understanding of securities financing markets. The value of the working group has been as a forum allowing subject matter experts to review and critique the model in the process of construction – bringing experience and insight to bear in resolving issues of interpretation, emphasising which features are essential, which require adjustment and which are potentially redundant. The speed with which the group has been able to make progress is a validation of the CDM, combining a proven technical base with a modelling framework which allows small and medium enterprises to focus on defining business functionality.

Eyre: The core CDM developed by the International Securities and Derivatives Association (ISDA) for derivatives leverages attributes and data elements from FpML. While there is no core application programming interface/standardised messaging model for securities finance certain products (such as basic repo) can be supported by FpML hence the CDM. The success of the securities lending transaction pilot demonstrates the relative ease of extending the model for securities finance. Further exploration will be needed to validate that all securities finance processes and functions can be supported by the CDM. Given the 'product' neutral objectives of the CDM, the core cash flow models and business processes will expand over time to address far wider market functions such as a generic 'lending payout'.

Rayner: A great question. There is a lot of commonality between the derivatives and securities financing worlds, and these aspects of the ISDA CDM have been leveraged and reused in the International Securities Lending Association (ISLA) CDM. This not only reduces the effort compared to starting with a blank sheet of paper, but it also means we can better connect the dots between securities finance and derivatives. It quickly became clear to the working group how securities financing specific elements should be added to the ISLA CDM to adapt to the specific requirements in this business and make it easier for ISLA members to implement the CDM.

What was also interesting was how often the group agreed that certain aspects of the business were not as well understood as they should be. For example, block trades, where an execution has multiple allocations associated with it, came under scrutiny concerning the actual terms of the agreement and practical implementation. This highlights another very important benefit that the CDM will give us as a market – consistency. Consistent terminology, consistent validation, consistent data. This standardisation will increase the ability of all market participants to automate processing, which in turn will reduce costs, trading risks and breaks.

Shone: One of the CDM's primary design principles is one of composability and re-usability. I think this assisted momentum in the pilot, with the ability to pick up, extend or adapt existing components where there was an analogous concept. Where securities lending has a more developed concept of an event, for instance, the process of allocating a trade, our pilot resulted in the rewriting of the existing components to be able to cater for both derivatives and securities lending. This is an example where a fully-developed CDM, catering for multiple products, truly will allow for interoperability between distinct asset classes; this has to be invaluable for any firm trading multiple products, especially the smaller firms who may want one application that deals with all of their products due to licencing costs: if that application uses the CDM it can do that easily without conflicting data models for each asset class.

Is the adoption of the finalised CDM expected to be quick or gradual? Is there a critical mass that must be achieved for the merit of the model to be realised?

Saied Attarian: The pilot has demonstrated that adoption of CDM is a relatively straightforward exercise and can have a positive impact on the market. However, this was a proof of concept only covering limited economic scenarios. We aim to continue working with the participants of the working group to further develop the product model to cover additional scenarios, as well as the implementation of other functionalities such as re-allocation and billing. Once this is done the pace of adoption is down to market participants. However, the merit of the model can be realised immediately by an adopter through the standardisation of messages and functions

Shone: As with most technologies I expect that in the immediate term adoption will be incremental. Indeed, I believe firms will want to take advantage of the composable design to adapt parts of their infrastructure piece by piece, demonstrating real value add and cost savings at each increment. A big bang approach would most-likely be costly to adapting firms in both time and money, whereas an incremental approach allows for expertise to be developed, benefits to be cumulatively realised and ongoing continuous improvement. I suspect that we will initially see pockets of adoption, either within firms between two or more related systems or between firms, say, for example, a financial institution and one of their post-trade matching platforms. When those pockets start to overlap you will then have critical mass and we should then see a runaway effect. When that will be is hard to say and highly-dependent on individual firms' resourcing constraints and strategic vision, and external factors such as regulation and market disruption.

Rayner: I would expect it to be gradual. The past few years have seen a lot of regulatory initiatives that are still ongoing and CDM will inevitably compete for priority with other initiatives. I expect take-up to gather momentum once regulatory projects such as the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depository Regulation are behind us.

However, there are immediate benefits even within firms from adopting CDM even before any critical mass is achieved in the market. Consistent canonical data structures and processes will reduce friction internally within firms as well as supporting external flows. As a software vendor, we should feel its benefits very quickly as it will reduce the amount of interface work that we need to undertake and assist in the consolidation of data across silos.

Julian Eyre: Bank adoption of incremental CDM functionality will deliver business benefits for internal processes. This approach could also help any adopter accelerate familiarisation with the technology.

The adoption of CDM can work in various ways, partly depending on the maturity of the CDM:

One: through an industry infrastructure provider potentially incentivising CDM usage or through the emergence of a new market platform designed around the CDM model.

Two: internally within a bank business vertical (derivatives or securities lending/repo) to reduce E2E internal friction and costs

Three: horizontally across an industry (derivatives or securities lending for example) where like-minded counterparties recognise the value in reducing reconciliations and exceptions between them, and accelerating enhanced digitisation of the industry

Four: holistically across a bank to add value within a business vertical as well as risk (Fundamental Review of the Trading Book (FRTB) benefits), regulatory reporting, client integration (better client service through efficiency etc), especially when cross-product (i.e. derivatives, securities lending and repo)

The merit of the model can also be assessed in several ways. The most critical will be an adopter's business benefit.

In the 1990s the FIX protocol developed, where adoption of the industry standard was initiated by a global asset manager and a broker to streamline end of day processes (allocations specifically). Further brokers accelerated adoption to benefit from the asset manager order flow (and cost benefits). In the case of securities finance and the CDM, the embracing of the technology by early adopters may demonstrate similar business benefits.

Walker: Widespread adoption is most likely to take a path that is initially gradual until you reach a critical mass. That is the point you are likely to see a lot of activity as people try to avoid being left behind. It is tricky to pinpoint what the exact tipping point will be but we will certainly know when we get there.

How successful has the ISDA CDM been for making derivatives transactions more efficient? Can that success be replicated or out-done for securities finance?

Rayner: The ISLA CDM and the pilot process have been construed in such a way to build on and learn from the experiences of the derivatives project. There is certainly great potential in the project and as a vendor servicing both derivatives and securities finance, the common DNA of the CDM across both businesses benefits both us and our clients. When the efficiencies of the modelling are recognised by more participants, I think we'll see rapid uptake.

McAllister: I think it's fair to say that CDM is still a work in progress for the OTC derivatives industry, but one which we expect to deliver over the coming year or so as we see the first commercial services referencing CDM coming to market, promising efficiencies in post-trade processing with integral regulatory compliance. There is no reason why similar benefits cannot be realised in the securities finance domain, where there is arguably even more potential to eliminate operational inefficiencies by leveraging standardised definitions of product features and lifecycle events.

Eyre: It is my understanding that the adoption model for derivatives is not clear. However, there is an active initiative to use the CDM for regulatory reporting (partly enabled by the EMIR rewrite).

CDM hackathon participants have looked at DLT solutions using the CDM as an efficiency mechanism. The challenge here is that unless the CDM standards are adopted, use of a DLT platform remains a significant hurdle in most cases.

Where does the most significant efficiency challenge lie for securities finance? Is it to pick off specific complex high-cost processes (allocations, legal contracts or settlements and payments?) Or to consider a wider lower friction end to end process, initially, implemented for a product sub-set?

Walker: It is still early days for the ISDA CDM. So, it is premature to talk about its impact. However, Looking at the fundamentals of the securities finance and derivatives markets, there is a great deal of potential in securities finance, possibly a great deal more. This is because various factors including regulation and the success of various market infrastructure providers have already driven a great deal of standardisation over the last 10+ years in derivatives. Clearing a derivatives trade or reporting a CDS to DTCC's trade information warehouse, for instance, are both powerful agents of standardisation.

Shone: I'm not in a position to comment on behalf of ISDA's membership, however, I think the ISDA CDM has had a strong year. Not only have at least two pilots been carried out at other trade associations (ICMA is the other), but there has also been several awards, white papers and announcements from other organisations that have begun to use the CDM in some capacity. For instance, Goldman Sachs recently announced its Legend platform which has been used to extend pieces of the CDM, while REGnosys and ISDA won the G20 Techsprint for regulatory reporting.

In the best-case scenario, what would the CDM do for the securities finance industry?

Ben Smith: I think one of the biggest trends in our industry is around using technology to democratise securities finance. But we can't achieve that until industry participants are using the same data formats. The CDM is one way we can start to standardise the most basic building blocks that our industry is built around.

With that foundation in place, we can build stronger, smarter services for a much wider pool of beneficial owners. I've seen first-hand at Sharegain how having the right data structure and standards in place cascades through every layer of your software. An end-user may never see it, but their experience is ultimately defined by how well their data is structured.

This is the best-case scenario for the CDM: that it allows us to radically expand the pool of participants, provide them with a seamless user experience and, ultimately, to democratise our industry.

Attarian: The main benefit of using CDM is the introduction of data and function standardisation across the securities finance industry. During discussions with the wider working group, it was apparent that different methodologies are used across the market for parts of securities financing transactions and its collateral provisions.

This generates reconciliation over-heads and prevents the smooth interoperability of different point solution across the value chain. Wider adoption of CDM will help to bring unification and consistency across the market which will result in increased efficiency and reduction in post-trade operating costs. By providing a standardised input layer, the CDM will also facilitate regulatory alignment and data collection processes, which is a new challenge that the industry is facing with SFTR.

Walker: A securities finance industry based on more standard models, where it is clear what is the front-to-back cost of deviations, could sweep away a great deal of existing infrastructure and business processes. Not to mention drive considerably more automation. Whether that will come from the inside e.g. CDM or externally i.e. more regulation or a combination remains to be seen.

Rayner: By providing common terminology and data structure for securities financing agreements, collateral schedules, products, transactions and lifecycle events, the CDM will facilitate more automation in the industry, with less chance of breaks between counterparties. One key benefit would be the standardisation within CDM of collateral schedules. This would greatly improve the scope for optimisation of inventory and collateral across cleared, triparty and bilateral relationships. Overall CDM will inevitably lower costs and help remove redundant processes such as reconciliations and break resolutions, fails management and so forth.

Eyre: The best-case scenario is to remove more than 40 percent of the cost from operational processes. This is achieved through a selection of mechanisms:

- A reduction in errors as the data will be standardised across the industry.
- Improved client service as the adoption of CDM will improve data and quality of service – less time spent on managing fails and exceptions
- Improved reputational risk – CDM will allow lower cost, more accurate regulatory reporting
- Better risk reporting – CDM delivers a standardised representation of trades, cashflows and helps align with FRTB challenges
- A reduction in treasury costs – CDM can provide enhanced real-time treasury and funding processes
- Improved financial reporting – due to the better quality of data within the organisation
- New cloud-based (DLT?) shared service or interoperable platform to dramatically reduce IT costs

One of the benefits of the CDM is the opportunity to increase automation, which in turn could solve or mitigate several market pain points today. How much of an impact do you see this CDM having on costs and overall market efficiency over the next year or so?

Sunil Challa: The core benefit in leveraging CDM for post-trade services is for market participants to agree on a common processing standard that would allow for;
(a) reduced duplication through the use of authoritative data,
(b) externalise non-differentiated services, and
(c) unlock value through reduced friction points.

We see the first two in promoting operational, cost efficiencies which would in turn enable capital and funding efficiencies. By allowing these models to extend beyond functional and product silos, it provides market participants with a reference architecture to target for post-trade services. In such an environment where services operate with standardised data and process definitions, clients – FMIs, buy and sell-side firms, can seek best of breed solutions to fit their operating model and make decisions with the understanding that standards not only ensure interoperability across service providers but allow them an open path for future innovations in the marketplace.

Walker: A core driver for reconciliations and breaks in securities finance, is the diversity of data models. Every time there is a translation between models, there is the scope for error.

Widespread adoption of a CDM would reduce the scope for those types of errors. What you need though to allow greater automation to be built, including automation that can be built on top of core systems, is both data model standardisation and more open, standardised APIs.

Shone: I couldn't agree with Martin more. One of the steps that ISLA would like to take following the pilot is to work with member firms on their pain points and help them in developing business cases for CDM adoption. With any number of possible routes to take through developing and adopting the complete CDM, firms must identify the path that gives them the optimum business benefit for their efforts.

Attarian: Adoption of the CDM can have a huge impact on the market. It will not only introduce standardisation across the market, but it will also further introduce efficiency especially during post-trade life cycle events. If market participants are using the same data standards to represent securities financing trades, the pain of on-boarding and reconciliation of trade activities will be eliminated. Furthermore, by using the same standards and methodologies, reconciliation and post-trade activities that range from settlement, re-allocation, mark-to-market, rerate, billing and more, will become far easier and less time will be spent creating complex inhouse solutions to perform these tasks.

Rayner: There is absolutely the scope for CDM to help reduce costs in the industry. Realistically we may need to look out further than the next year to see the benefits, however. This is an initiative that will have real and tangible benefits over the medium to long term horizon and FIS as a key partner to the market is happy to support and drive the initiative as it is completed and adopted into our products and services.

Eyre: To assess the impacts and business benefits the industry needs a clear understanding of the current state, and then to build a business case for CDM adoption.

In-year benefits will depend on the level of bank activity and buy-in; if the banks adopt a community approach efficiency can be accelerated, however, if the banks rely on vendors to implement the CDM the time to value will likely be quite extended. If the market/banks can assess benefits and implement the CDM model incrementally, then in-year benefits will be achieved.

Is the adoption of a CDM for securities finance an essential step on the road to the wider use of DLT and is that the ultimate destination? Or, will DLT become one of several common routes to market thanks to the CDM?

Attarian: DLT is developing at a pace all across the financial services industry. Simulations and prototypes are replacing theoretical concepts surrounding the distributed ledger technology. The first step in creating such technology in the securities finance industry is harmonisation and standardisation. CDM can be a solution to creating standardisation, and the first step in adopting DLT by the wider market. However, CDM in itself can be adopted as a market data standard to increase efficiency across the sector without the adoption of DLT.

Rayner: We expect that CDM is an evolutionary step towards the use of DLT more widely in the market. For example, it provides the building blocks of standardisation of data structures and processes that are needed for smart contracts. It would be rather more

Walker: The origins of the ISDA CDM had a strong theme of facilitating the growth of DLT based systems. I think the world has moved on since then and the general feeling is that a CDM can facilitate developments in infrastructure regardless of the underlying technology. Also, where we see progress towards production of DLT systems, they are part of a hybrid rather than a purely DLT model. Something I wrote about almost four years ago with Anton Semenov of Commerzbank's blockchain team in "bridging the gap between investment banking infrastructure and distributed ledgers".

Looking at Broadridge's work in securities finance DLT, we have also adopted a pragmatic hybrid approach where the Broadridge's DLT solutions are designed to work with existing infrastructure

Shone: It would be wrong of me to say that CDM is essential to implementing solutions through a DLT, however, I would say it would make it significantly smoother and easier to adopt such a solution if the data structure is standardised. Similarly, with smart contracts on top of a DLT, a common language to build them from is an advantage.

DLT solutions are possible without a CDM; HQLAx is a good example known to the industry where a DLT solution has been used to good effect. However, at the end of the day, a DLT is another type of network and entering into any communications structure is only truly effective if all nodes on that network are built using standardised building blocks and communicate with a common language.

Where processing happens within multiple nodes on a DLT, you must process the same event in the same way on all nodes within that network. CDM based lifecycle events support unambiguous consistency of output, applying a standard practice throughout rather than reliance on convoluted translations.

Eyre: I see the CDM approach as being a fundamental foundation for future securities finance platforms. Initially, CDM adaptors may provide a tactical technical solution to some pressing industry challenges. A longer-term trajectory towards DLT seems likely.

Without a standardised market CDM, there is a high risk that multiple DLT solutions may evolve, where none are interoperable. Or at least the interoperability will be inefficient and not solve for one of the key DLT benefits of mutualised platform costs.

If the CDM is adopted as the standardised model (ie CDM native), then DLT vendors, who build to the model, will deliver interoperability, and contribute to the success of DLT in the future.

Lee Braine: As DLT matures, its technology is being considered for more applications in financial services. There is a good choice of DLT platforms, including Fabric, Corda and enterprise versions of Ethereum. And there is a growing ecosystem of fintechs, bigtechs and consultancies with the capability to design and build enterprise-grade solutions on those DLT platforms.

However, the challenge often comes in constructing viable business cases, where several factors have to align across the industry. For example, having a sufficient number of market participants to achieve momentum in the market and providing adoption scenarios that allow market participants sufficient choice of how deeply to integrate with the new technology.

The CDM provides a common foundation, in terms of standardised processes and standardised data. Such standardisation is typically a predicate for the adoption of DLT because the technology often requires common ‘smart contract’ code and shared ledgers. This means the CDM can act as an enabler for DLT.

However, the key architectural step is to determine whether, for a particular use case, it is better to use a centralised model (such as a market infrastructure firm running common processes on a centralised authoritative data store and market participants accessing that data store) or a decentralised model (such as each market participant running common processes on its local authoritative data store).

Nigeria blooms

Natalie Turner Reports

The West African market has exceeded all growth expectations this year, with the value of assets on loan up 27,000 percent YoY, its first CCPs being approved and the introduction of ETDs

At the start of 2020, few can honestly claim to have known what was to come this year, but one man can. In February, the CEO of the Nigerian Stock Exchange (NSE) Oscar Onyema boldly predicted "exponential growth" in the West African country's budding securities lending market, in part thanks to regulatory changes laid down in a new Finance Bill.

Nine months later, and on-loan volumes are up more than 27,000 percent. No that's not a typo. So, what happened?

The NSE first launched its triparty securities lending market model in 2012, alongside its market-making programme to enhance market liquidity, price discovery and reduce bid-offer spreads following the regulatory approval of its securities lending guidelines. Onyema explains this was to support the growth of the market and ensure adequate risk management, the Securities and Exchange Commission (SEC) licenced firms to act as third-party agents which are referred to as securities lending agents (SLA)". Since then, the exchange has made amendments to the guidelines to provide clarity and to ensure that the use of the Global Master Securities Lending Agreement (GMSLA) conforms to the SEC's regulation.

Additionally, rules governing the inclusion of retail investors were published in 2019 to allow for retail investor participation in the securities lending market by pooling together securities authorised by the retail investors for lending, through accredited broker-dealer firms who can act as intermediary agents.

Nigeria's securities lending market has developed more generally in recent years, it is smaller than a few other African markets but only by a thin margin. Although a lack of granular data makes exact comparisons hard to make, Nigeria is understood to be the fourth-largest securities lending market if measured by assets available to lend. It sits close behind Mauritius and a long way behind Senegal, and all African markets are dwarfed by South Africa. However, Nigeria's ascension appears to be in the making.

In its most recent securities lending market report (published weekly), the NSE details the eye-popping scale of the growth so far this year.

The volume of securities lending transactions has increased from 61,435 units in 2019 to 7.38 million units between January and October 2020, indicating an increase of 11,909 percent.

Meanwhile, the value of these securities borrowed shot up from NGN344,000 (US$903) in 2019 to NGN97.18 million (US$255,065) in 2020; a 27,525 percent increase. These numbers may seem minuscule compared to developed markets, but the growth represents a concerted effort by local regulators and market infrastructures to develop securities finance markets that they see as a valuable addition to Nigeria's capital market.

Onyema explains that this volume growth is the result of unilateral efforts to increase the operational efficiency and regulatory framework for securities lending and borrowing.

The latest report references a list of 12 which are equities pledged to the five licenced SLAs to be lent out. To grow this list further, the NSE continues to drive engagements to have significant inventory of securities held by long-term, large institutional holders like pension funds, insurance companies and exchange-traded funds (ETF) issuers available for securities lending. Oneyma adds: “Our ETF market is also fast-growing and we expect that this growth will further deepen the pool of assets that could be pledged for lending.”

“Riding on the good work done in creating the securities lending and borrowing regulatory framework, we have worked actively with the Central Securities Clearing System (CSCS), Nigeria’s central depository, and licenced securities lending agents to improve the transaction cycle for securities lending and borrowing transactions.”

Securities can now be moved from a securities lending agent’s account to a borrower’s account within a transaction cycle.

The NSE also engages with regulators like the Pension Commission of Nigeria, the commission does not currently allow pension funds to participate in securities lending and borrowing, to permit pension fund participation in securities lending and consequently grow the pool of pledged assets with the SLAs.

He explains: “We would also be relaunching our market-making program early next year which will help increase participation from market makers looking to cover their positions and fulfil their obligations.”

Onyema adds: “Additionally, in collaboration with the Federal Ministry of Finance, SEC and other stakeholders in the capital, the long concerns around the double taxation of manufactured dividend has now been addressed under legislation in the 2019 Finance Act.”

Introducing derivatives

The Nigerian SEC has additionally decided to develop a derivatives trading market in Nigeria. So, the SEC issued an amendment to its rules and regulations in December 2019, providing for new rules on the regulation of derivatives trading and CCPs. This combination of new rules and products is opening up derivatives trading in Nigeria to new investors and participants as both regulators seek to bolster the market and offer new risk management products.

Investors in the global capital markets can expect the launch of West Africa’s first exchange-traded derivatives (ETDs) on the NSE in the near term following the registration of its CCP, NG Clearing by the Securities and Exchange Commission (SEC). NG Clearing will play a key role in the financial market ecosystem by driving the safety and stability of Africa’s global marketplace through an efficient and timely settlement of derivative trades. The approval-in-principle will allow the exchange to launch ETDs supported by NG Clearing in the risk management process.

Roy Zimmerhansl, NSE equities product advisory committee and lead consultant at Pierpoint, explains: “The approval-in-principle that happened earlier in the year will allow the exchange to launch ETDs supported by a CCP which meets the highest standards of global best practices in delivering clearing and settlement services.”

Two CCPs were registered on the same day which included NG Clearing, a counterparty owned by NSE, CSCS (the CSD in Nigeria) and other top banks is one of the licensed CCP. The other is FMDQ Clear, a fully owned subsidiary of a recently established competitor Securities Exchange.

Tapas Das, CEO of NG Clearing, tells SFT: “In absence of a CCP model, there have been no structured risk management practices, through the imposition of collateral and margins as well as other requirements, such as stipulating position limits on trades.”

“When looking at the current regulations of the cash equity market, security shortages have almost been non-existent on account of the adoption of pre-validation of orders, he adds. “Coupled with this, the regulation, in its current form, does not appear to support short selling.”

With the introduction of CCPs, these pre-conditions are getting addressed, Das explains, as a next logical step, "we shall seek to consult with regulators and other market participants and table a proposal for securities lending and borrowing, which shall factor in some of the points explained earlier and work towards the creation of an active securities lending market.

"NG Clearing is confident when keeping in line with global markets, as and when the cash equity market moves towards a CCP model, making pre-validation of trades will become redundant". Coupled with relevant regulatory changes in short selling, "we are likely to experience a surge in the need for securities lending activities which would catapult the securities lending market in Nigeria considerably," Das concludes.

FMDQ says that the achievement will redefine the landscape for financial transactions, including the development of repos, derivatives, and commodities markets in Nigeria. The CCP had also stated that it will introduce "endless possibilities to the scope of permissible products that could be developed and deployed within the ecosystem towards delivering long-lasting prosperity to the Nigerian economy". In addition, the CCP will be able to manage the consolidated risks in an operational, cost and capital-efficient manner that unlocks value for market participants within its value chain.

Bola Onadele Koko, the CEO at FMDQ Group, comments: "The evolution of FMDQ Clear to a CCP marks a critical and long-awaited milestone in the Nigerian financial markets ecosystem, positioning the markets for revolutionary growth in potentially colossal proportions."

"NG Clearing will play a key role in the financial market ecosystem by driving the safety and stability of Africa's global marketplace through an efficient and timely settlement of derivative trades" Zimmerhansl explains, while the initial focus is on its role as a counterparty for clearing ETDs, "we expect that with its best in class risk management expertise, it will also play a key role in the margin lending and securities lending initiatives being pursued by the exchange in the not too distant future". Moreover, Das notes that whilst engaging with the commission they envisage going live with the first trades being cleared by the end of the second quarter of 2021.

Das explains: "If we go by global experiences, it generally takes a while for the market to absorb the nuances of derivatives. Hence, our immediate target is to consolidate in this space. Having said that, based on the guidelines of the regulator, stakeholder feedback and market requirements, we shall, at some point, expand out of the exchange-traded space in future."

What next?

Nigeria's securities lending market is catching up on the league table behind some of the other African countries and appears to be the most up-and-coming market in the region. For now, the heights of Africa's largest market to the south remains out of reach, but if Nigeria can maintain its new growth velocity, supported by willing regulators and infrastructures, it could become the second-largest securities lending market in the foreseeable future.

NSE'S CEO explains that despite the exponential growth the market has witnessed this year, he believes there is still significant headroom for growth in the Nigerian securities lending programme. The NSE will continually engage with market participants individually to increase awareness of the presence of the securities lending programme as an avenue for deepening the efficiency of the market.

Nigerian market breakdown

- Number of securities lent: 2019 = 61,435 units, 2020 YTD = 7.38 million units, a 11,909 percent increase
- Value of securities lent: 2019 = N344,000 (US$903), 2020 YTD N97.18 million (US$255,065), a 27,525 percent increase
- Number of licenced agents: five
- Number of CCPs: two
- Equities available to lend: 12
- Regulator: Securities and Exchange Commission

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A year like no other – part II

David Lewis
Senior director
FIS, Astec Analytics

FIS Astec Analytics' David Lewis continues to break down 2020 securities lending revenue figures with a forensic analysis of the numbers behind the headlines

Last month we looked at the impact of COVID-19 on the securities finance markets, with an emphasis on the level of activity and its subsequent effect on balances and incomes. That analysis showed that 2020 has, so far, shown a dip in overall revenues compared to the prior year. In fairness, 2019 was a high-performing year and one of only two to rack up more than $10 billion in revenue since 2008.

Our analysis also showed that the volume of securities borrowed dropped only a small amount, while availability grew as new funds and assets came to market. The resultant effect on fee and rebate levels was unsurprising, dropping 11-24 percent per quarter. These are all high-level measures though. What was happening at the more regional or asset-class level?

This month we drill down another level to look at the more granular details behind the headline numbers. These numbers plotted the revenue declines seen so far, in what has been an exceptional year, albeit for all the wrong reasons.

Understanding market availability

Availability increased in three of the four quarters through 2020, with only the last quarter falling short to date. Where that inventory came from may surprise some, with equity assets leading the way as figure 1 shows. Fixed income assets remained near flat for the first two quarters with a drop of around 6 percent in quarter three and a much more significant drop of around 18 percent in the final quarter. The fourth quarter is not over, of course; this statistic is as at the time of writing.

Where are the additional equity assets coming from? Equity availability in Europe, the Middle East and Africa (EMEA) increased in every quarter compared with prior periods. Q2 was the standout, with a rise of some 13 percent over the volume available in the same period in 2019. This may well have been a direct response to the volatility created as the economic impacts of COVID-19, in terms of depth and duration, became more apparent. The first, third and fourth quarters also displayed an increase in equity availability in EMEA, specifically 8 percent, 9 percent and 7 percent respectively.

Asia Pacific (APAC) saw much lower level changes, rising in the first half of the year by 2 percent and 5 percent but falling back in the second half, dropping inventory volumes by 1 percent and 5 percent over the third and fourth quarter.

Like APAC, the Americas changed by much smaller amounts than in EMEA, but availability did rise on every quarter compared with 2019 and did so from a much higher baseline. Across the four quarters respectively, North and South American equities availability increased by 1 percent, 5 percent, 2 percent and 2 percent respectively.

Fixed income asset availability fell by around 3 percent in the first quarter, was relatively flat to 2019 in the second but displayed much bigger falls in the third and fourth quarter, specifically 6 percent and 18 percent. Again, the fourth quarter is a to date number and may change toward year end.

Figure 1: equity market availability 2019 to 2020

Regionally speaking, EMEA saw strong rises in fixed income asset availability in the first three quarters, exceeding 2019 by 7 percent, 8 percent and 4 percent respectively. With the caveat that we are only halfway through the final quarter and average availability over this period may change, the fourth quarter has witnessed a significant drop of over 30 percent compared with 2019. APAC saw a flat second quarter, but drops of 7 percent, 10 percent and 18 percent in the first, third and fourth quarters respectively.

Finally, the Americas. Fixed income availability has fallen across the whole year, albeit by smaller percentages than some of the other regions. Looking at the four quarters chronologically shows falls of 1 percent, 2 percent, 4 percent and 8 percent respectively. Across all regions, it is the fourth quarter which displays the biggest changes with regards to fixed income assets at least, perhaps indicating a shift in investment profiles among the larger institutional funds that feed the lending markets.

Comparing loan volume across regions

Availability isn't everything of course. In fact, looking at the overall impact to market revenues in 2020, the rise in availability most likely pushed fee levels downward as increased supply reduced scarcity premiums. Overall, as reviewed last month, balances were down every quarter, perhaps by a lower margin than many expected, while fee levels displayed much more serious declines.

Looking at the regional data and analysing the 51,000 plus securities across our global data sample by country of issue highlights some interesting results. In general, we have seen that equity loan volume has increased across the past three quarters of 2020 compared with 2019, having fallen some 5 percent in the first quarter, but looking at the regional differences shows that EMEA remained relatively flat in the first quarter, down around 1 percent, then grew increasingly rapidly across the remainder of the year. Equities on loan, measured in share volume rather than value, grew by 6 percent, 17 percent and 28 percent across the second, third and fourth quarters, indicating a significant jump in equity borrowing. This may well reflect market volatility and increased position taking by both long and short investors as 2020 unfolded.

Looking at the APAC region, a similar pattern emerged but with a more pronounced dip in the first quarter. Equity activity fell some 6 percent compared with quarter one 2019, but then advanced slightly more slowly than EMEA through the rest of the year, notching up gains of 12 percent, 12 percent and 21 percent over the final three quarters of 2019.

Equity borrowing activity in the Americas bucked the trend somewhat. The first quarter displayed a fall similar to APAC, with equity volumes borrowed down by around 5 percent. However, despite a small gain of 3 percent in the second quarter over the same period in 2019, the relief was short lived. The third and fourth quarters witnessed drops in equity activity of 8 and 10% respectively.

Positions were almost mirrored in fixed income, with EMEA seeing an early gain of some 10 percent in the first quarter followed by falls of 10 percent, 5 percent and 6 percent across the following three respectively. For APAC, fixed income asset borrowing slumped 21 percent in the first quarter, followed by another painful quarter with balances down some 6 percent. The last half of 2020 has shown some relief with balances up 8 percent and 17 percent over the same periods in 2019.

Looking to the Americas, where fixed income borrowing towers over activity anywhere else on the globe, fixed income balances were up across every quarter – specifically 7 percent, 13 percent, 7 percent and 7 percent. This was achieved despite reduced availability across every quarter.

2020 has been a truly unusual year, and it is not over yet. The data shows that not all markets are the same, with investors and lenders together with borrowers responding differently to a uniquely global issue that is the COVID-19 pandemic. With six weeks yet to go, there may be more surprises yet from 2020.

David Lewis
Senior director
FIS, Astec Analytics

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The latest industry moves from Siebert Financial, SIX and more

Siebert Financial has hired Anthony Palmeri and Jerry Losurdo to lead the securities finance group within its broker-dealer subsidiary, Muriel Siebert & Co.

Palmeri joins Siebert from JPMorgan Chase, where he was an executive director, while Losurdo joins from TD Prime Services where he was managing director leading its securities lending and equity finance division.

Palmeri and Losurdo, both based in New York, bring 75 years of combined industry experience which they will use to leverage their expertise and connections as well as the current strength of the division to further drive results, says Siebert.

Of his new role, Palmeri says: "I know our team, alongside the current employees, can make this division an even bigger powerhouse for Siebert. We're looking forward to continuing Siebert's growth story and expanding upon the strong foundation that has been built."

Losurdo adds: "It is exciting to join a securities finance group that has already shown incredible potential and growth. Siebert is an extraordinary firm with an entrepreneurial spirit that understands growth and risk management in today's competitive world, and we are excited to provide additional leadership and expertise to take this division to new heights."

Elsewhere, Gloria Gebbia, controlling shareholder and board member of Siebert, says: "Palmeri and Losurdo and their team are great additions to the Siebert family. This very dynamic team will build upon the success of

David Prosperi retires from OCC

Options Clearing Corporation's (OCC) David Prosperi is set to retire as senior vice president, communications, as of 13 November, after just under six years with the equity derivatives clearinghouse.

He will be replaced by Michael Shore who joined OCC in January. Shore is leading the communications function and reporting to Julie Bauer, who oversees the entire OCC external relations team.

Prosperi's more than three decade long career in senior communications roles took him from The White House, through two presidential campaigns, and three cabinet-level agencies, before he arrived at the Chicago-based clearing house in 2015.

At OCC, Prosperi was responsible for all external and internal communications for the world's largest equity derivatives clearing organisation during the pivotal years when wider market awareness and understanding of the role of central counterparties (CCPs) was still developing.

He reported to the executive chairman Craig Donohue and worked directly with the CEO John Davidson to lead the rebranding initiative that began in 2018.

"I really enjoyed my experience at OCC and the opportunity to work again with Craig Donohue and with some very smart people who have an impact every day in global financial markets," says Prosperi.

"I would like to believe I helped move the needle for OCC in terms of how the organisation is perceived today in the marketplace, and that there is greater awareness and understanding of the vital role it plays as a CCP for the users of the US exchange-listed options markets."

our current securities finance group, and will be critical to getting it to the next level."

SIX has hired Stuart Kidd as a senior sales manager with a focus on its post trade services, including clearing, settlement and custody.

Kidd is also promoting the exchange's advanced tax services related to securities trading.

He reports to Brendan Bambury, SIX's head of post trade sales for the UK and the Nordics.

Based in London, Kidd has spent the past several years offering consulting work through his own firm, including three years with Commerzbank and then the past eight months with Margin Reform.

He also brings nine years' experience with J.P. Morgan, where he worked primarily in the over-the-counter derivatives business first in the UK, then Australia and Singapore.

Clearwater Analytics has hired FIS' former head of sales for collateral and securities finance software to lead the sales effort for its new pensions segment.

Christian Bullaro has now joined as a sales director with a mandate to spearhead its push into the pensions space by building a new team that will promote Clearwater's books and records offering to both public and corporate funds.

Speaking to SFT, Bullaro says that Clearwater sees "a natural expansion into the pensions space as the next step in the process".

Bullaro, who is based in New York, reports to Scott Erickson, Clearwater's COO.

Bullaro joins Clearwater from Finastra where he was head of capital market sales for North America for just over a year.

Before that he served as managing director, head of enterprise software sales, for data analytics and financial services provider firm S3.

Between 2013 and 2018 he was FIS' head of sales for collateral and securities finance software.

His CV also includes an eight-year stint as J.P. Morgan's head of sales and relationship management for derivatives and cash collateral for North America.

Jay Clayton, chair of the US Securities and Exchange Commission (SEC) will be concluding his tenure at the end of this year. After serving more than three-and-a-half years, Clayton will leave the SEC as one of its longest-serving chairs.

During his tenure, Clayton guided the agency through several major global shifts in financial regulation – some of which are still evolving –such as the EU's adoption of the second Markets in Financial Instruments Directive (MiFID) reforms, the transition away from LIBOR, and Brexit.

The timing of Clayton's departure means his replacement will be among the first appointments made by the incoming president Joe Biden, who will enter The White House on 20 January 2021.

As the prospect of multiple viable vaccines to COVID-19 is now possible in the near-term, the next chair will be tasked with overseeing the largest capital market recovery effort since the 2007/08 global financial crisis.

The SEC says Clayton was responsible for strengthening the commission's enforcement programmes, navigating changes in the markets and the COVID-19 pandemic and also led efforts to promote diversity, inclusion and opportunity in the workplace.

During Clayton's tenure, the commission obtained orders for over $14 billion in monetary remedies, including a record $4.68 billion in fiscal year 2020, and returned approximately $3.5 billion to harmed investors.

In addition, the commission paid approximately $565 million to whistleblowers, including the largest single award in the programme's history ($114 million) which was given out earlier this year.

Prior to joining the commission, Clayton was a partner at Sullivan & Cromwell where he was a member of the firm's management committee and co-head of the firm's corporate practice. From 2009 to 2017, Clayton was a lecturer in law and a professor at the University of Pennsylvania Law School.

Prior to joining Sullivan & Cromwell, Clayton served as a law clerk for the Honorable Marvin Katz of the US District Court for the Eastern District of Pennsylvania and was a member of the New York and Washington, DC bars.

Clayton comments: "I am proud of our collective efforts to advance each part of the SEC's tripartite mission, always with an eye on the interests of our main street investors.

"The US capital markets ecosystem is the strongest and most nimble in the world, and thanks to the hard work of the diverse and inclusive SEC team, we have improved investor protections, promoted capital formation for small and larger businesses, and enabled our markets to function more transparently and efficiently."