GLOBAL INVESTOR | ISF FOW

Securities Finance Americas Guide 2020

Summer 2020
www.globalinvestorgroup.com

RESILIENCE

Experts consider how the pandemic affected securities finance

ESG

WHAT DOES THE RISE OF ESG MEAN FOR SECURITIES FINANCE?

PEER PRESSURE

THE LATEST ON THE EMERGENCE OF PEER-TO-PEER LENDING IN THE US

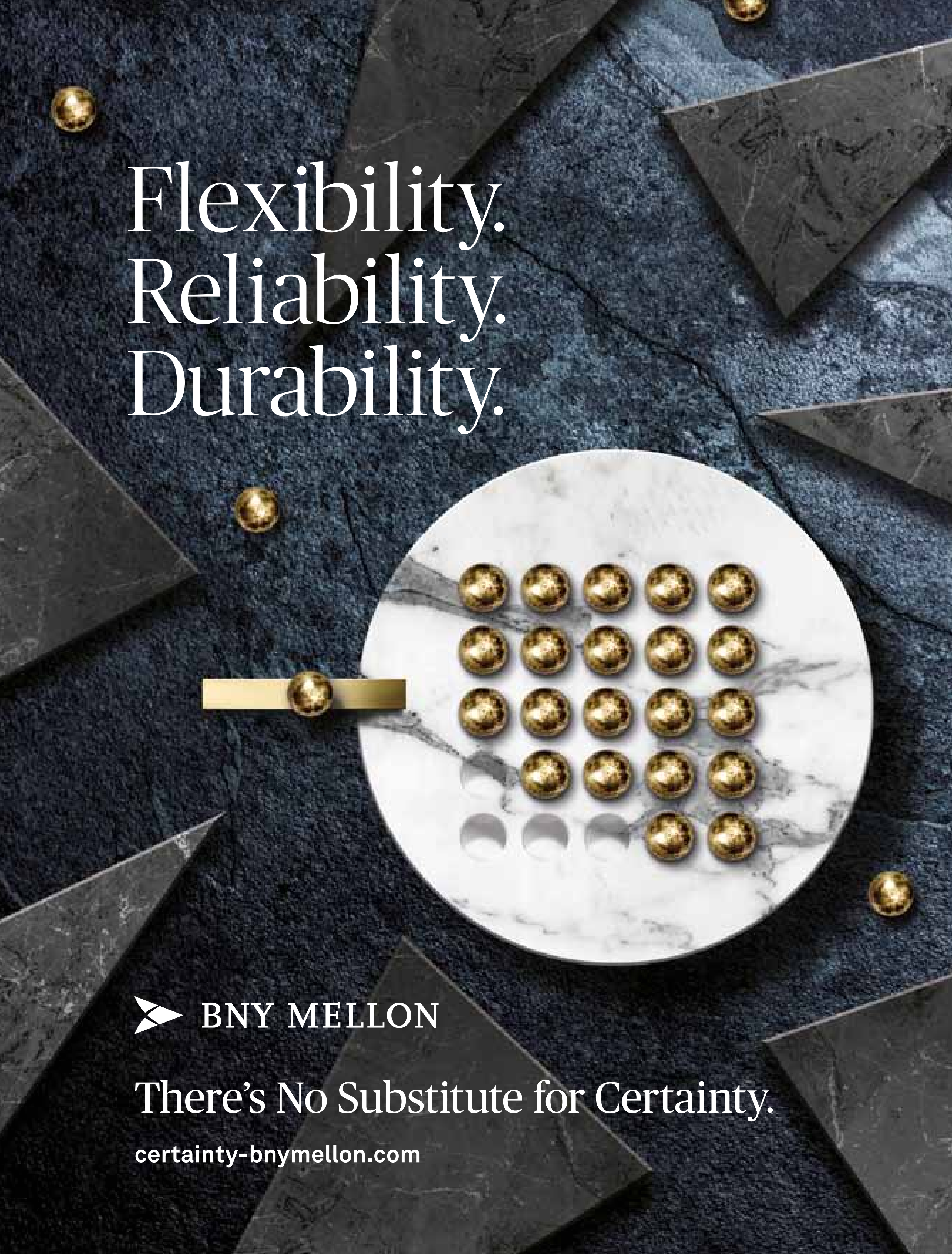
DIVERSITY

Women in Securities Finance discuss promoting diversity

+ COUNTRY PROFILES

The latest securities finance developments in the region's key markets

Securities Finance Americas Guide 2020


Flexibility.
Reliability.
Durability.
BNY MELLON
There's No Substitute for Certainty.
certainty-bnymellon.com

General manager Will Browne
Tel: +44 (0) 20 7779 8309
will.browne@globalinvestorgroup.com

Managing editor Luke Jeffs
Tel: +44 (0) 20 7779 8728
luke.jeffs@globalinvestorgroup.com

Securities finance editor Oliver Wade
Tel: +44 (0) 207 779 8430
oliver.wade@globalinvestorgroup.com

Senior reporter Perle Battistella
Tel: +44 (0) 207 779 8028
perle.battistella@globalinvestorgroup.com

Design and production Antony Parselle
aparselledesign@me.com

Head of events operations and marketing
Velida Cajdin
Tel: +44 (0) 20 7779 8188
velida.cajdin@globalinvestorgroup.com

Senior conference producer
Oliver Blokland
Tel: +44 (0) 207 779 8088
oliver.blokland@globalinvestorgroup.com

Events assistant
Rose Allen
rose.allen@globalinvestorgroup.com

FOW Head of global business development
Hanna DeBank
Tel: +65 6224 1040 / Mob: +65 8766 9841
hanna.debank@fow.com

Business development executive
Jamie McKay
Tel: +44 (0) 207 779 8248
Jamie.mckay@globalinvestorgroup.com

Head of sales Tim Willmott
Tel: +44 (0) 20 7779 7216
tim.willmott@globalinvestorgroup.com

Reprints Christine Jell
cjell@globalinvestorgroup.com

Divisional director Jeff Davis

Chairman Leslie Van de Walle

Chief executive Andrew Rashbass

Directors Jan Babiak, Kevin Beatty, Andrew Billingal, Tim Collier, Colin Day, Tristran Hillgarth, Imogen Joss, Wendy Pallot, Lorna Tilbian

SUBSCRIPTIONS
UK hotline (UK/ROW)
Tel: +44 (0)20 7779 8999
US hotline (Americas)
Tel: +1 212 224 3570
hotline@globalinvestorgroup.com

RENEWALS
Tel: +44 (0)20 7779 8938
renewals@globalinvestorgroup.com

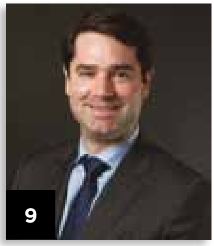
CUSTOMER SERVICES
Tel: +44 (0)20 7779 8610
customerservices@globalinvestorgroup.com

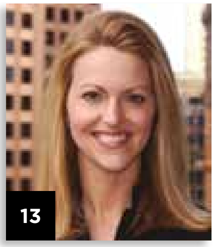
GLOBAL INVESTOR
8 Bouverie Street, London, EC4Y 8AX, UK
globalinvestorgroup.com

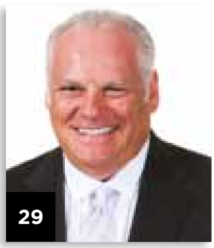
Global Investor (USPS No 001-182) is a full service business website and e-news facility with supplementary printed magazines, published by Euromoney Institutional Investor PLC.

ISSN 0951-3604

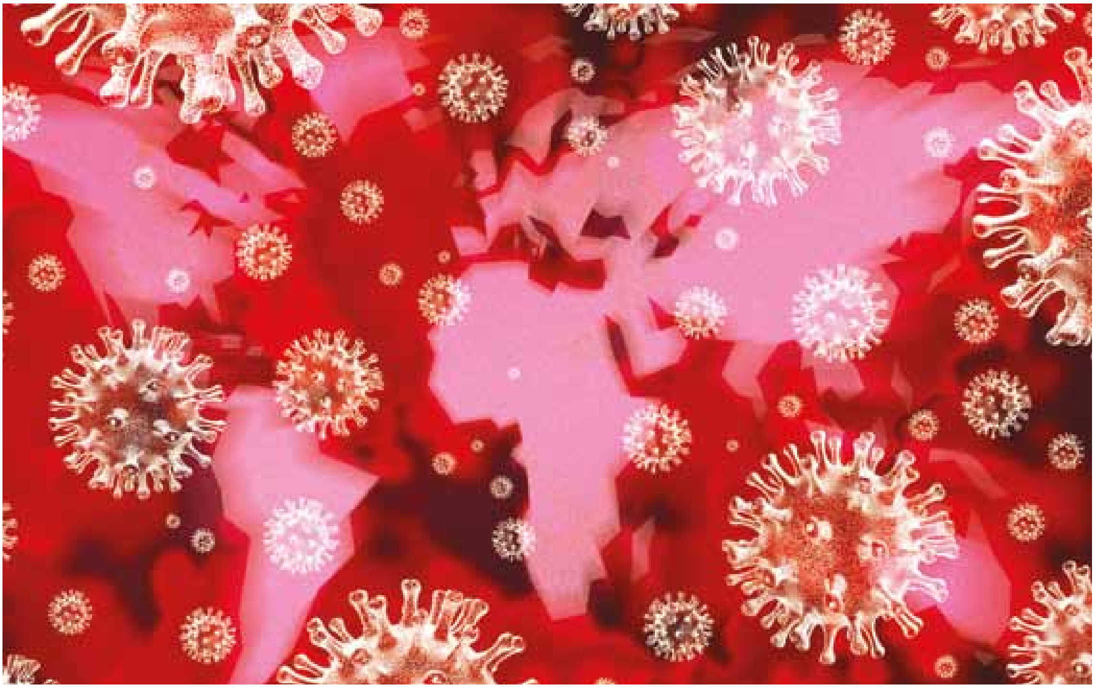
Contents







How securities finance remains resilient during a global pandemic



Market experts discuss how the Covid-19 pandemic has affected the securities finance market, both in terms of demand and relationships, and what practices will be carried into a post-pandemic world

Covid-19, commonly known as the Coronavirus, has shaken global economies and had devastating impacts on both businesses and individuals. However, despite the path of destruction left by the virus, the global securities finance market has demonstrated its adaptability by remaining resilient. Not only that, but the pandemic has undoubtedly presented the market with a number of opportunities, while enabling agent lenders to strengthen their relationships with their beneficial owner clients.

While global securities lending revenue was down 14% year-on-year in the first half of 2020, as highlighted by DataLend, the market data arm of EquiLend, the market still generated $3.89 billion in the first six months of the year. In the Americas, revenues increased 5.6% when compared to the same period in 2019, which was the second best year on record in terms of revenue, with 2018 being the only year to return higher numbers. Highlighting some of the key figures seen in the Americas, Nancy Allen, global product owners of DataLend, says: "In the Americas, while equity loan values declined 14% year over year, average fees increased by 22% driven by a number of special names, including four of the top-five revenue-generating securities and a number of Covid-related specials."

The positive figures seen in the Americas should come as no surprise, as it was one of the few geographical regions to not impose short selling bans in response to the Covid-19 pandemic, unlike a number of countries across Europe, the Middle East and Africa (Emea) and Asia Pacific. In those regions, securities lending revenues were down 33% and 25%, respectively.

While there was a significant drop-off in demand during the initial outbreak of the Covid-19 pandemic, Bill Kelly, managing director and global head of agency securities finance for BNY Mellon, notes that the New York-based bank's activity was up both year-on-year and sequentially. He says: "As an industry, securities lending was down in the first quarter, but our activity has been up both year-on-year and sequentially, which I think reflects a couple of things; that there was demand for High Quality Liquid Assets (HQLA) such as sovereign assets and dollar funding; and the existence of strong demand for exchange-traded funds."

However, as the pandemic persevered and broader markets were impacted, Kelly highlights that demand has shifted towards "distressed sectors" like consumer discretionary services such as tourism, hospitality and airlines. Nick Davis, executive director of agency securities lending at JP Morgan, echoes the comments from Kelly, as he notes that March "saw a divergence" in hedge fund activity as quant funds were deleveraged due to market volatility and global macro funds "fared better". He adds: "Specials started to increase in specific

"In the Americas, while equity loan values declined 14% year over year, average fees increased by 22% driven by a number of special names, including four of the top-five revenue-generating securities and a number of Covid-related specials."

– Nancy Allen, DataLend

sectors such as airlines and travel, and fixed income saw increased demand in US Treasuries due to money market fund demand and overall dislocations due to volatility and increased specials in emerging markets, sovereigns and the corporate space."

The pandemic has encouraged agent lenders to use alternative methods of communication with their beneficial owner clients, whether that be using platforms such as Zoom to video-call or making the most of trading platforms to execute a higher volume of trades. However, what remains paramount, is that the communication between agent lenders and their clients has been consistent

"While during the global financial crisis some clients took action to reduce lending, we only saw a small handful limit activity during the recent volatility..." – Bill Kelly, managing director and global head of agency securities finance, BNY Mellon

throughout the pandemic and, in a number of cases, the level of communication has been ramped up.

Kelly explains: "I think what we what we as an institution – and the wider securities finance industry – have done, is proactively reach out to and engage with clients. As we pivoted away from our primary office locations to business continuity sites and then into having 100% of our staff work from home, we quickly recognised that maintaining strong communication would be absolutely essential, both internally and externally. Once we got settled towards the end of March, we were constantly communicating to our clients about market events and market trends, both from a risk management perspective and to simply keep them apprised of what was occurring in the lending markets."

MUFG Investor Services has adopted a similar approach, states Tim Smollen, global head of securities lending solutions. He notes that the Japanese bank has increased its dialogue with individual clients during this time of elevated concern and quickly adopted video conferencing. Smollen says: "I still like being able to see clients on screen and I also think it gives them extra assurance when they see their securities lending coverage team altogether, motivated and coordinated."

BNY Mellon's Kelly highlights that the beneficial owner clients' response to how they communicated and managed the pandemic was "absolutely positive", and it allowed them to remain engaged with their securities lending programme.

"While during the global financial crisis some clients took action to reduce lending, we only saw a small handful limit activity during the recent volatility. The good news is that as markets stabilised following global coordination by central banks around liquidity and asset purchase programs, that has really afforded those clients the confidence to

“Based upon the number of client inquiries we have been getting, it is safe to say that not every provider has performed to the same standard during the crisis.” – Tim Smollen, global head of securities lending solutions, MUFG Investor Services

return to the market much more quickly this time around. They have responded quite favourably to re-entering because I think they see some opportunity here,” he explains.

In a recent roundtable discussion hosted by Global Investor, Cathrine Poulton, managing director and head of client management for Europe, Middle East and Africa (Emea) for State Street, highlights that the relationships with beneficial owner clients have “become much more humanised”. She believes that there are “definite positives” that have been uncovered by the Covid-19 crisis, particularly with regards to adding value to the agent lender and beneficial owner relationship.

Despite the market demonstrating its resiliency and beneficial owners showing their willingness to capture the opportunities presented by the pandemic, there were still a number of concerns raised, particularly towards the start of the crisis, when market participants were questioning whether the securities lending market could operate as efficiently in a remote-working environment, notes Smollen. He says: “I think at the start of the crisis, everyone had the same concerns as to whether their providers could operate efficiently in a working from home environment, especially those which had reduced staff or offshored/outsourced their operations. Secondly, clients were concerned that their providers would not be able to find consistent securities lending revenues around the world while keeping them safe.

“Based upon the number of client inquiries we have been getting, it is safe to say that not every provider has performed to the same standard during the crisis.”

The MUFG global head of securities lending solutions adds that beneficial owners are not looking to add risk while the markets “gyrate” with volatility induced by the Covid-19 pandemic. However, according to Smollen, clients are becoming increasingly concerned as to whether their providers are extracting all of the securities lending value that their holdings afford.

JP Morgan’s Davis highlights that both agent lenders and beneficial owners were focussed on risk at the beginning of the pandemic, whether it be operational, settlement or collateral. He says: “Clients wanted assurance that there was no collateral exposure during this period of volatility, and that the settlement rate remained high to reduce any fails despite the increase in volume that agent lenders were experiencing.”

The changing needs of beneficial owners

“...The good news is that as markets stabilised following global coordination by central banks around liquidity and asset purchase programs, that has really afforded those clients the confidence to return to the market much more quickly this time around. They have responded quite favourably to re-entering because I think they see some opportunity here.” – Bill Kelly, BNY Mellon

MUFG Investor Services is yet to begin its operations in the securities lending market, but the Coronavirus pandemic has prompted the Japanese-headquartered bank to re-think its approach, both in terms of the structure of its programme and in terms of how it liaises with prospective clients.

are reminiscent of the global financial crisis and hurricane Sandy, states Smollen. Clients demand increased dialogue on what is occurring in the markets during periods of heightened volatility, with the discussion often becoming “incredibly granular”. During these turbulent times, he notes that it has not become uncommon for chief investment officers, heads of trading and senior portfolio managers to be present during client update calls, where the discussion focuses on liquidity, collateral management and trade structures.

However, while the pandemic has raised a number of concerns and presented the market with opportunities, it is clear that a number of practices adopted to manage this crisis will be carried forward in a post-pandemic environment. Kelly comments: “I think the previous perception and belief was that when you have a sales and trading business, you couldn’t operate it from home, and I believe that myth has now been debunked. The pandemic has broken down our geographic barriers and it feels as though we are now operating as a single organism, as opposed to different offices located in different regions.”

Poulton believes that the market has transitioned into a ‘business-as-usual’ phase, despite a majority of the industry working remotely. She adds: “We’re functioning as if we were in the office, and I am not sure that we will return to what used to be the norm.”

As the market started to stabilise and market participants became accustomed to working remotely, Davis highlights that the level of risk “to some extent” has subsided. Its trading desk and client teams have started to focus on alpha generation such as collateral expansion, term and the alternative finance space in a bid to support those clients who were either long or short on cash.

MUFG Investor Services is yet to begin its operations in the securities lending market, but the Coronavirus pandemic has prompted the Japanese-headquartered bank to re-think its approach, both in terms of the structure of its programme and in terms of how it liaises with prospective clients. Smollen notes that MUFG is “investing heavily” in both external and internal technology solutions where much of its focus is on data, analytics and predictability.

“This program won’t be saddled with antiquated legacy technology platforms or numerous manual processes as we will deliver a true front to back solution taking advantage of the latest pre and post trade tools available in the marketplace,” he explains.

The bank has received significant early interest from a number of global investors who “have concentration issues with their global custodians”. He adds: “They have reached out to learn more about the MUFG Securities Lending offering and are looking for detailed information as to how best to navigate current market conditions.”

At JP Morgan, Davis explains that technology “remains a focus” and because of the continued investment over the years, its agency lending and collateral management platform has allowed them to service its clients through this period of heightened volatility. ■

BNP Paribas prepares to gain market share in the Americas

Mike Saunders, head of agency lending Americas and **Andrew Geggus,** global head of agency lending trading at BNP Paribas explain how the bank's investment in its securities finance business has expanded its offering in preparation for gaining market share in the Americas.

BNP Paribas has made a significant commitment to securities finance in recent years, increasing its headcount and geographical presence while expanding its product offering through substantial, strategic investments. The objective is to extend their client base of beneficial owners by leveraging its agency lending programme. The bank's commitment to expanding in the Americas is opportunistic and the enhancements to the programme have BNP Paribas well positioned to provide a securities lending offering to institutional clients.

"This is happening at a time when many of our peers are substantially reducing their investment in securities finance, either through headcount reductions, contractions in the scope of offerings or an increase in fee structures," says Mike Saunders. "Our presence in New York, London and Sydney with Hong Kong to follow soon, have provided sophisticated institutions with leading securities lending services for several decades. Our ambition is to leverage this track-record to grow our client base in the Americas. We've developed a dynamic offering tailored to institutions seeking a risk-protected return on often underutilized assets." The presence of BNP Paribas in these locations enable the efficient distribution of assets for clients, who benefit from enhanced execution and asset utilisation.

The BNP Paribas programme has also made substantial progress on the product development front to meet the growing demand of client needs. Products such as multi-currency cash collateral reinvestment - which allows clients to transact on a cash as well as a non-cash collateral basis across major market currencies - are now available globally. This was particularly relevant during the market turmoil of March when clients historically restricted to non-cash collateral were able to pursue cash collateral opportunities. "The flexibility to provide clients with optionality regarding the collateral framework is paramount to extracting maximum value for a client program," says Saunders.

BNP Paribas has noted growing interest in third party lending over the last 18 months, particularly among large, sophisticated institutions as well as asset managers using multiple agent lenders.

"We now have the resources to provide a best-in-class client service irrespective of location or portfolio make-up," says Andrew Geggus. "Whether they are a US-based buyer with an APAC-focused mandate or an APAC-

“We now have the resources to provide a best-in-class client service irrespective of location or portfolio make-up.”

– Andrew Geggus, BNP Paribas

located client with a US portfolio, we can offer a broad-based service for all clients.” The bank is optimistic the trend of third party will continue as institutions utilize multiple lending agents. “BNP has the bandwidth too seamlessly and quickly on board these clients to monetize the assets of a client portfolio. We feel the dynamic offering of the BNP Paribas programme will add immediate value to many institutions seeking a new lending provider,” adds Saunders.

In addition to expanding their product offering, BNP Paribas has implemented a series of enhancements in their transaction execution framework. BNP Paribas has committed considerable resources to developing an internal proprietary trading layer. “This has changed the way our business operates,” says Saunders. “We have implemented an automated locate system that will continue to evolve in terms of execution capability and reporting as well as the ability to provide data to clients directly.” Certainly BNP Paribas is not unique in this regard in their efforts to harness automation. However, the investment and prioritization is worth highlighting.

The platform will receive locate lists from clients, check those securities against available inventory, available credit, proper agency lending disclosure, and approvals as well as the available lendable supply and then book those transactions automatically and send the fill back to the client within a matter of seconds.

“Our investment in a propriety execution platform is exciting. The technological developments removes the manual processes on low margin, high volume trades so from a resource perspective we are able to improve response rates, increase volumes and efficiently meet the growing needs of our clients and counterparties. The benefits are clear as members of the desk can concentrate on where the opportunities are - whether that is re-rating securities, opportunities around corporate actions or spending more time with our trading counterparties and clients,” says Saunders. Geggus observes that BNP Paribas is working on an aggressive technology roadmap, incorporating the latest artificial technology and machine learning techniques to allow traders to focus on adding value and how risk is priced in portfolios. “The system will increase its knowledge and expertise as we use it,” he adds. The programme will continue to leverage technological solutions to provide faster execution, increased transparency and an overall better experience for participants.

BNP Paribas has invested considerable resources in its Latin American growth strategy, developing its presence in Colombia to serve as a gateway to the region while building upon the bank’s presence throughout Brazil. “Opportunities are starting to come across our desk now that we have a maturing business in the region, specifically from many of the large beneficial owners throughout South America,” says Saunders. “Before we had that presence it was difficult to penetrate the region. The BNP Paribas programme will continue to develop throughout the region, leveraging the investments throughout Colombia and recently Mexico City.” All of this complements the recent acquisition of the middle office and fund administration business of Janus Henderson in the US - BNP Paribas is committed to establishing a presence in the Americas clearly. The investments are substantial and will ultimately lead to a growing market share so the bank envisions. “We are always looking to leverage the presence of the bank globally to identify

©"3 man chess"

"We endeavour to expand our client base in the Americas region aggressively."

– Mike Saunders, BNP Paribas

opportunities. As the bank's presence in specific regions becomes more seasoned, we anticipate our agency lending business will grow in lockstep. We have a phenomenal story to tell in the region and an impressive track record globally with the backing of an extremely well capitalised banking institution. We endeavour to expand our client base in the Americas region aggressively", added Saunders.

Securities lending is not for every institution. Where BNP Paribas believes it adds value is identifying opportunities for clients that have the right assets or where they can increase their performance because the bank has the capacity to lend a specific asset class in a manner that is in line with the client's risk tolerance. Flexibility and a customized approach are two critical elements to consider when designing and implementing a lending program. "In our securities lending offering we have developed a means to generate additional revenues for the client, while using the financial strength of BNP Paribas to provide a robust form of indemnification to the client to protect them from potential losses related to counterparty default," says Saunders.

He adds there are far too many participants engaged in securities lending with below market performance. This may consist of portfolios of main equity indices or portfolio holding HQLA that are being underutilised by a beneficial owner's current provider, indicating that the business in the US has the capacity and the bandwidth to achieve respectable returns for the client. "If you look at official institutions that may have large portfolios of high quality liquid assets, this is a prime example of how we can utilise our financial strength and our risk-averse mindset to generate liquidity as well as returns for these institutions," says Saunders. "The same would be true for asset managers."

Coronavirus has presented Geggus with a challenging introduction to the business since he joined in February. However, he says this has enabled him to understand the bank's robust risk framework and its ability to adapt quickly to change. "I have been particularly impressed by our ability to assist our clients during this crisis, address their concerns and manage their portfolios," he concludes. "At a time of unprecedented uncertainty we are committed to developing the business and I believe this will benefit our clients substantially. As a programme, we want to be aggressive and build our program to be a best-in-class product. We have a dynamic offering which we feel can have an immediate impact for programme participants. ■

Advocating the benefits of peer-to-peer

The key players in the **Global Peer Financing Association** tell **Global Investor** what they hope to achieve, assess the level of demand for peer-to-peer lending in the US and describe how the association may expand in the future.

Born from various discussions of issues facing the industry, the Global Peer Financing Association or GPFA was formed to create a more efficient way of engaging in peer-to-peer securities financing transactions.

Its founder members had experienced significant interest in peer-to-peer lending from their buy-side counterparts for years, explains Robert Goobie, assistant vice president of collateral management, fixed income and derivatives at Healthcare of Ontario Pension Plan (HOOPP).

"We started transacting both indirectly and bi-laterally with these peers years ago and have been advocating the benefits of peer-to-peer for some time," he adds. "There is a growing momentum amongst other global beneficial owners to add peer counterparts to their programme as these types of trades have become more common and accepted."

> **We started transacting both indirectly and bi-laterally with these peers years ago and have been advocating the benefits of peer-to-peer for some time.**
>
> **– Robert Goobie, Healthcare of Ontario Pension Plan (HOOPP)**

Robert Goobie, assistant vice president of collateral management, fixed income and derivatives at Healthcare of Ontario Pension Plan (HOOPP): "There is a growing momentum amongst other global beneficial owners to add peer counterparts to their programme as these types of trades have become more common and accepted."

Chris Benish, managing analyst of asset and risk allocation for the State of Wisconsin Investment Board (SWIB): "Finding complimentary needs - for both lenders and borrowers - is critical for success."

Chris Benish, managing analyst of asset and risk allocation for the State of Wisconsin Investment Board (SWIB) also refers to interest based on the conversations SWIB has had with its peer institutions.

"A lot of the funds we have talked to are aligned with the GPFA philosophy of alignment of interests (for peers, by peers), high quality credit, and diversification of counterparties," he says. "Finding complimentary needs - for both lenders and borrowers - is critical for success."

The California Public Employees' Retirement System (CalPERS) has engaged in a variety of peer-to-peer securities lending and repo transactions with multiple peers and has interest in continuing to broaden the scope of these types of trades for its programme comments its investment officer, Dan Kiefer.

The system has already added significant incremental revenue to its programme over the past few years from peer-to-peer transactions and has been able to increase the scope of its lending programme and diversify its exposure with the addition of highly creditworthy counterparts.

Benish reckons agent lenders will be keen to do whatever they can to facilitate best execution on behalf of their clients, while noting that this doesn't replace traditional repo or securities lending but is rather another route to market.

"The agents will always have a role to play because even the most sophisticated plans have some reliance on external parties to provide a wide variety of operational/ settlement services," he continues. "The agents at the forefront of figuring out how to best facilitate this will be well positioned to participate in increased activity alongside their clients."

"As an agent lender, we think an increase in peer-to-peer securities finance trading is a good thing for our clients and therefore it is also good for us," says Brooke Gillman, head of client relationship management at eSecLending.

eSecLending is involved in the administration of these trades to support its client programmes in the same way it supports trades with traditional counterparties, she explains. "The transactions we see today in the peer-to-peer space are additive to our client's lending activities. These are lending or repo trades that are not otherwise being done with traditional bank counterparts, so the revenue increase is incremental to our client's lending activities."

Establishing the GPFA is a way to come together as industry participants and share best practices says Jerry May, senior portfolio manager at Ohio Public Employees Retirement System (OhioPERS). "This is a natural outgrowth of some of the asset owner roundtable discussions we have had over the years at various industry conferences. We are all facing similar issues with a variety of different solutions."

Benish explains that the idea of an association started as a means of sharing information among like-minded investors. "Through collaboration and networking, it has grown to where we are executing meaningful trades directly with each other. We know there are many similar funds out there and our hope is to provide education, as well as offer a roadmap of sorts for anyone interested in exploring these types of trade structures as a compliment to their existing roster of counterparties and trading relationships."

Kiefer notes that the association's members have individually solved a lot of issues relating to operations, legal, compliance and credit and want to share what they have learned. He acknowledges that each beneficial owner will have their own unique challenges and that the GPFA may not be a good fit for everyone, but says there are many funds out there that

Brooke Gillman, head of client relationship management at eSecLending: "As an agent lender, we think an increase in peer-to-peer securities finance trading is a good thing for our clients and therefore it is also good for us."

"The transactions we see today in the peer-to-peer space are additive to our client's lending activities. These are lending or repo trades that are not otherwise being done with traditional bank counterparts, so the revenue increase is incremental to our client's lending activities."

– Brooke Gillman, eSecLending

Dan Kiefer, investment officer, The California Public Employees' Retirement System (CalPERS)

Jerry May, senior portfolio manager at Ohio Public Employees Retirement System (OhioPERS): "This is a natural outgrowth of some of the asset owner roundtable discussions we have had over the years at various industry conferences. We are all facing similar issues with a variety of different solutions."

could benefit from what its members have learned.

GPFA is by the buy-side for the buy-side, says Goobie. "As beneficial owners we recognise that we are uniquely positioned to come together as a global group of market participants to share best practices, offer education, advocate and facilitate networking for the evolution of the securities lending industry."

Demand for peer-to peer lending in the US is strong and growing. There is particular interest from the larger, more sophisticated beneficial owners and asset managers who 'self-select' as potential actors in this field since they have the scale, resources and experience to consider new options in securities finance.

These organisations have the breadth and depth of inventory to make lending securities a significant source of revenue, which is therefore well worthwhile optimising. They often also have a natural demand for cash and securities in their day-to -day operations or can generate that demand.

That is the view of Mark Faulkner, co-founder of Credit Benchmark, who believes the market

"As beneficial owners we recognise that we are uniquely positioned to come together as a global group of market participants to share best practices, offer education, advocate and facilitate networking for the evolution of the securities lending industry."

– Robert Goobie, Healthcare of Ontario Pension Plan (HOOPP)

is ready for this type of business and that its data can remove one of the historic obstacles to peer-to-peer lending - the paucity of credit information on which to approve a new 'peer' counterpart.

"The data provides a necessary component of peer-to-peer lending in that it informs counterpart selection and assists in assessing creditworthiness across KYC and onboarding processes and getting credit committees comfortable with a new group of counterparts," he says.

Many of the principals involved in peer-to-peer are unrated by the established credit rating agencies. Credit Benchmark provides consensus credit information over time that reassures the principals and those responsible for signing off new counterparts.

"In fact, the larger global funds can often show stronger creditworthiness than the more typical broker dealer borrowers that appear on a lending agent's borrower list," says Faulkner. "The creditworthiness of many of the funds within our dataset is strong, with more than 90% of the mutual, pension and sovereign wealth funds holding an A- or better credit consensus."

One of the key questions for members is whether they will accept beneficial owners outside of the US. There has been strong initial interest from other global beneficial owners and some large asset managers and insurance companies, says Kiefer, who expects other pension plans and sovereign wealth funds to look to join the association.

"Our goal is to increase the number of beneficial owners involved globally," says May.

Mark Faulkner, co-founder of Credit Benchmark: "The creditworthiness of many of the funds within our dataset is strong, with more than 90% of the mutual, pension and sovereign wealth funds holding an A- or better credit consensus."

"We believe the association will help foster networking amongst the global beneficial owner group."

According to Goobie, many global beneficial owners have already expressed interest in joining. "We purposely kept the working group focused on the initial four pension plans so we could make progress and agree upon how best to move forward," he concludes. "We anticipate announcing other beneficial owner members in the near future." ■

"Our goal is to increase the number of beneficial owners involved globally. We believe the association will help foster networking amongst the global beneficial owner group."

– Jerry May, Ohio Public Employees Retirement System (OhioPERS)

The Need for Improved Communication in the Securities Lending Industry

By **Matt Wolfe,** Vice President, Securities Finance, OCC.

"Effective communication is a critical element of success." That may seem like an obvious statement, but it is something that we should always remember, and it is something that we strive to continually improve at OCC.

In this case I am speaking about how the securities lending industry communicates about transactions and contracts. Unlike other segments of financial services, there is not a common messaging protocol used by the securities lending industry, which causes inefficient or overly complex systems, increases costs, and leads to discrepancies. We are working with industry participants to standardize and develop more effective communication to lower the cost of operations for market participants and to facilitate innovation. We believe that a collaborative effort will provide benefits to the entire industry.

Before diving into the specifics of how the systems within the industry communicate, it is worth spending a moment thinking more generally about the evolution of language and communication. How our systems communicate is directly related to how we communicate, so history gives us a good frame of reference. We can observe apes using sounds and gestures to communicate; therefore, it is reasonable to conclude that early hominids practiced these same methods of communication.

The evolution to walking erect freed up our hands for even more articulate gestures. The subsequent development of our brains, ears, and vocal cords allowed for greater verbal communication, freeing our hands to do more work. As humans migrated from Africa, tribes developed their own unique dialects, leading eventually to roughly 6,500 different spoken languages today.

The development of language is a critical component of the success of humankind. It allowed groups to develop a shared history and culture. Language also differentiated and segregated humanity. We all may speak one or two languages or more, but the remainder of the 6,500 languages are largely unintelligible to many of us.

Language is just one component of communication; it is not just what you say, but how you say it. Verbal communication was a significant development for early humans, but it was only effective within ear reach. Over time, humans developed written language to extend their communication across both time and space. In recent times there have been many innovations to improve our ability

We clear the path

OCC℠ has the largest centrally cleared stock loan offering in the world with approximately $80 billion in cleared loan balances. Over the last 25 years, OCC has built an innovative and unique U.S. program for securities lending transactions where OCC steps in as the counterparty (with a two percent risk weight) and guarantees the return of stock or collateral. We continue to enhance and expand access to our stock loan program in order to offer clearing solutions and capital efficiencies for our members and the entire securities finance industry.

As the world's largest equity derivatives clearinghouse, OCC is committed to providing market participants with high quality and efficient clearance, settlement and risk management services. As a systemically important financial market utility, we work to enhance our resiliency in order to reduce systemic risk, increase market transparency, and provide capital and collateral efficiencies for the users of the U.S. capital markets.

OCC

THE FOUNDATION FOR SECURE MARKETS

to communicate. For example, the telegraph allowed simultaneous communication across great distances. Radio allowed for an even greater and more rich communication across distance. Telephones and then cell phones further improved our ability to communicate verbally. The internet and email improved our ability to express ourselves through writing. Today, in the remote work environment we find ourselves frequently on videoconferences, bringing together verbal, nonverbal, and written communication.

Shifting our focus to the securities lending industry, we can see an element of tribalism. Different platforms require different dialects. There is not a common language or method of expressing Lendable Inventory. In some cases, lenders upload a file using SFTP. In other cases, it is expressed through a spreadsheet, and other platforms allow communication security by security using MQ. The same is true of end-of-day contract reconciliation where different back office systems express contracts in different ways. Some use a fixed length format where the first few bytes represent the lender, the next few bytes represent the borrower, the next few bytes describe the security, etc. Other systems use more modern file formats such as a tag = value format (e.g Symbol=TSLA).

The result of this variation in how information is communicated means that participants either must choose a 'tribe' of counterparties that speak their same language, or they must have systems to communicate across different platforms. This has many negative implications, such as limiting utilization, inefficient pricing, costly systems, errors in communication, increased operational costs, and greater manual interaction.

There have been some efforts at standardization. The development of a common format for Agent Lender Disclosure (ALD) is a good example where the industry worked together to agree upon a standard way to represent Beneficial Owners and their share of contracts. A more recent example is SFTR reporting. ESMA has identified a standard method of communicating securities finance transactions and positions. This includes what data elements must be expressed and how they must be expressed. Establishing this standard was not an easy task and required numerous conversations and revisions to reach the agreed upon standard. Many participants discovered that they did not have all of the necessary data elements, others expressed the right elements in the wrong way, and most had to examine the quality and timeliness of their data. The result is that all participants now have a richer vocabulary and better grammar.

OCC has been working with lenders, borrowers, trading platforms, back-office service providers, and standards bodies to improve communication within the industry. This requires discussion about the workflow and interaction required to conduct various activities, what data elements are needed to accurately describe different activities, and how that information should be expressed. These are critical steps to establishing a more secure foundation and common language for the entire securities lending industry.

Now is the time for this work. We can see an increased focus upon data and analytics, a shift from batch-based to real-time processing, a growing number of new trading venues, and new entrants to the market. The foundational developments of TCP/IP and HTTP were critical to creation of the internet, which has completely transformed so many aspects of our lives. The development of standardized communication protocols can have a similar enabling effect upon innovation in our industry, and OCC looks forward to collaborating with market participants to make it a reality. ■

Securities Finance industry quick to adapt to accommodate ESG requirements

As environmental, social and governance issues continue to climb towards the top of the agenda for many firms, **Global Investor** considers the impact of ESG on the securities finance industry and how beneficial owners, agent lenders and borrowers are reacting.

The incorporation of sustainability principles in securities lending programmes has accelerated in recent years as more stringent requirements in terms of regulation and transparency have led to a significant increase in the involvement of lenders.

Earlier this year ISLA launched its Council for Sustainable Finance (ICSF), highlighting the important role of ESG and the motivation to align the securities finance industry with these principles. The ICSF issued its Principles for Sustainable Securities Lending which can serve as first steps to ensure appropriate standards are met.

Xavier Bouthors, a senior portfolio manager in the treasury team within fixed income solutions at NN Investment Partners refers to an increase in external and internal demands in relation to ESG portfolios participating in securities lending.

"For example, voting rights are associated with investor engagement and are not exercisable when a security is on loan, so how can these valuable voting rights be protected? This is pushing the securities finance industry to align with the ESG agenda and incorporate sustainable parameters," he says.

His colleague and fellow senior portfolio manager, Martin Aasly, acknowledges that there has been a mixed reaction to the ESG focus, ranging from the Japanese Government Pension Investment Fund GPIF suspending its equity securities lending to Dutch pension fund PGGM confirming its participation in securities lending.

"Overall we see beneficial owners looking at combining ESG in their securities lending programme from various angles, such as protecting voting rights or adding criteria on collateral eligibility," he says. "Agent lenders also have to adapt and offer beneficial owners suitable structures and we see

"For example, voting rights are associated with investor engagement and are not exercisable when a security is on loan, so how can these valuable voting rights be protected? This is pushing the securities finance industry to align with the ESG agenda and incorporate sustainable parameters."

– Xavier Bouthors, NN Investment Partners

some of them rethinking aspects of their agency programmes to enable recalls and restrictions around AGMs or collateral account arrangements. Borrowers are also adapting by helping to facilitate changes to beneficial owners' lending programmes."

Collaboration with responsible investment teams is key to developing the right policies for funds participating in securities lending, adds Bouthors. "The securities finance industry is impacted by growing interest in ESG and all participants have to work together."

Dimitri Arlando is DataLend EMEA team lead at EquiLend and its representative on the ICSF. He suggests that while it is still too early in this shift to understand the full impact on the securities finance industry, market participants are considering the evolving needs of these underlying investors and beneficial owners.

"Recalling securities for voting purposes is only one consideration of ESG in securities finance," says Arlando. "There are other factors to consider, such as if the collateral provided meets the beneficial owner's ESG criteria."

Another issue is that there isn't currently a global standard for ESG or a consistent

Xavier Bouthors, (above left) a senior portfolio manager in the treasury team within fixed income solutions at NN Investment Partners and colleague and fellow senior portfolio manager, **Martin Aasly** (above right)

> **Recalling securities for voting purposes is only one consideration of ESG in securities finance.**
>
> **– Dimitri Arlando, DataLend EMEA team lead at EquiLend**

framework that can be applied, which makes solutions difficult to construct. "That is why the work being done by organisations such as the ICSF is vital," he adds. "The Principles for Sustainable Securities Lending and the group's partnership with industry participants will help beneficial owners navigate the ESG waters while fully participating in securities finance."

Arlando says agent lenders must ensure that they recall securities in a timely manner to allow beneficial owners to vote when required. "What started as infrequent recall requests has evolved into a new norm for ESG investors participating in the securities finance market. Agent lenders have been very successful in ensuring that ESG investors can still participate in and earn incremental revenue from their portfolios through lending."

There is a misconception that securities finance and ESG are incompatible but that couldn't be further from the truth. The securities finance industry has been quick to adapt in order to accommodate the ESG requirements for all participants whether they are beneficial owners, agents or borrowers.

That is the view of Paul Wilson, managing director and global head of securities finance at IHS Markit, who refers to three primary areas of focus:

- Where required, assessing the relative merits of retaining securities on loan or recalling in order to exercise voting rights, ensuring the decision is in the best interests of the underlying investor
- Ensuring collateral accepted is consistent and compliant with the underlying ESG policy of the lender accepting the collateral
- Strengthening securities lending governance and programme oversight, control and understanding.

He says beneficial owners, agent lenders and borrowers have reacted positively to this trend to ensure the ESG requirements of participants - especially lenders and underlying investors - are maintained.

"For example, best practice around dealing with upcoming proxy votes has evolved," he explains. "Best practice includes assessing each scenario including the magnitude of the vote itself, restricting certain strategic holdings from lending prior to an upcoming vote date, understanding the revenue to be forgone by recalling in order to vote and then determining the best course of action."

According to Wilson, the combination of analytics that measure the liquidity of loans to determine if and when a recall of the loan should be initiated and specific notification of proxy dates as soon as they are announced provides lenders with appropriate metrics to make better informed decisions.

"One area we have been working on with beneficial owners is the governance aspect of ESG as for many, securities lending is an outsourced function," he continues. "In addition to good self-imposed ESG practice, regulators in Europe and the US have been suggesting an increased level of oversight, governance of outsourced functions and securities lending. We have built a wide variety of reports, tools and analytics that take away the heavy lifting for beneficial owners and provide them with independent, actionable information across their securities lending programme."

While ESG is ubiquitous in European financial services – facilitated by regulations such as the EU's Action Plan on Sustainable Finance and national legislation such as ESG disclosure requirements for pensions in the UK and climate change reporting for investors in France- the US market is playing catch-up, although banks and other financial institutions are embracing the concept according to Sonelius Kendrick-Smith, head of corporate treasury solutions - Americas DWS.

"Admittedly, a lot of collateral is now posted as cash, but some investors may adopt an exclusionary policy towards non-cash collateral instruments such as sovereign bonds issued by countries with poor human rights records or polluting companies," he says.

Adjusting collateral schedules for ESG is another step down the path of increased customisation. Putting in 'CUSIP roots' (the CUSIP number is a unique identification number assigned to all stocks and registered bonds in the United States and Canada) to filter out defence contractors or securities issued by the counterparty is a widely used strategy.

"Whereas that was previously an exercise in painting with broad strokes, larger subsets of excluded securities will most likely take it to a place of painting with narrower strokes," says Kendrick-Smith. "The same applies to proxy voting. Proxy voting vendor services have increased their offerings, enabling users to incorporate that data into their proxy stances. The stance of a beneficial owner taking a default option of wanting to vote all proxies in some cases has in some cases given way to voting depending on materiality and even parallel to the economic consequences." ■

"Best practice includes assessing each scenario including the magnitude of the vote itself, restricting certain strategic holdings from lending prior to an upcoming vote date, understanding the revenue to be forgone by recalling in order to vote and then determining the best course of action."

– Paul Wilson, managing director and global head of securities finance at IHS Markit

Coming to America...

By **Nancy Steiker**, Pirum North American Head of Business Development.

Securities finance technology firm Pirum has been supporting North American clients for many years. Pirum has built its name largely in Europe & Asia, but the London & more recently New York based entity is gaining momentum by helping North American firms navigate the increasingly complex eco system they operate in. With firms no longer willing to accept differing and substandard operating models per region they are increasingly demanding best in class globally and this is where Pirum seems to be gaining a reputation.

Over the past 20 years, Pirum has combined Securities Finance operational understanding with advanced technology to create innovative and flexible services that automate manual business processes. Pirum provides clients a full lifecycle of post-trade reconciliations, resulting in clients achieving a 99% STP rate on their post-trade functions. Increasingly, North American institutions are looking to rationalize their post-trade providers, resulting in direct and indirect cost savings and improvements in efficiencies in both cash and non-cash settlement.

Pirum have listened to clients and added North American specific products, to further streamline the daily post-trade demands. This includes, managing lifecycle events, exception management, and workflow across stock loan and repo activities. Pirum's team is largely made up of ex-industry practitioners and therefore their tools are fit for purpose in helping firms eliminate manual effort as well as eradicating errors at source. Institutions using Pirum's services report significant improvements in process and control within day to day operations, as well as a reduction in operational risk.

A recent demonstration of this approach has seen Pirum streamline the USD cash management process for clients, by developing SPOConnect (Security Payment Orders) to its product suite. SPOConnect offers a centralized solution for all SPO activity. By linking up to existing marks and payments services, they are seamlessly able to calculate and submit all SPO's from activity driven by Free of Payment trades and marking to market. Since scalability is so important to clients, especially when dealing with cash, a tightly controlled solution has been created, delivering key features such as maker/checker, pre-advice matching, full user audit, user permissions and easy to access close of business snapshots.

Canada, another significant market in the securities finance tapestry. With over $1.2T in assets lendable available and approximately $160B on loan and demand for Canadian government bonds only increasing, there is a clamor for greater automation and transparency. Pirum has seen this increase in activity and importance, translate in the volume and activity of their clients. In many ways Canada has more similarities with the international markets than US domestic, so it has been an ideal area for Pirum to assist clients, given their market share in post-trade in the international space

The global standard firms now require for automation includes trade compare, marks

and returns as well as exposure and collateral management

By bringing together post-trade services and collateral management into the same workflow, whilst at the same time managing the different views, drivers and needs of each of these areas; Pirum helps clients to manage risk, drive efficiency and deliver best in class processes and procedures. US domestic clients, who have historically used Pirum's overnight comparison services, now actively engage in using Pirum's real-time services, such as trade compare, marks, returns and exposure management. The appetite of North American clients to ensure post-trade STP between counterparts and collateral venues has grown, and many North American entities want to match the level of automation already achieved by their EMEA businesses.

Firms are always looking to improve their efficiency, Pirum has built US tri-party connectivity for its clients. Pirum can assist clients in calculating and instructing required values (RQV) for US tri-party. Pirum has seen an explosion in growth in their RQV product, with usage almost doubling in two years to $1.4 TRN calculated daily, across 6500 accounts and four tri-party agents (BNY, Clearstream, Euroclear & JPM). Full STP RQV calculation and submission to all agents has been a well-established product for our international clients; however, this is now also required for US clients due to changing market processes and regulatory change. The anticipated 15c3-3 amendment is likely to result in further growth in tri-party business for this region.

While regulatory change is significant in EMEA, North America has been quiet in comparison. This has allowed Pirum to focus on SFTR and CSDR which will certainly impact the North American region either directly or indirectly. Pirum has partnered with IHSM to offer the industry a modular SFTR reporting tool which will allow clients to utilize their current connectivity reducing implementation risk as well as costs. In addition, Pirum can provide clients with a data warehouse and the enrichment of trades as well as UTI generation and sharing, report creation and submission,

When it comes to CSDR Pirum is well positioned to assist clients. With its current product suite already providing clients with a CSDR fails cost report released earlier this year. The report overlays a firm's security finance fails with an estimated CSDR cost. Clients can see the breaks in real-time and easily fix them, with attention being paid to SSI capture and pre-settlement instructions and agreement. This along with a New roadmap of CSDR products will allow Pirum's clients to be ready for the regulation when it goes live in 2021

As CCPs become more important to the market and clients, Pirum remains involved in ongoing conversations with the US specific Central counterparties to ensure that if clients decide this is a route they want to take, Pirum will be able to offer the same efficiencies that they provide in EMEA

Recent events have meant that most market participants have been working remotely for a few months and as a result, manual processes are now starkly in focus as well as the need for greater transparency and oversight. This is where Pirum's fully SaaS solution seems to be hitting the sweet spot for institutions. Pirum has a great existing product suite as well as a well-defined new product roadmap that provides North America with a best in class service. ■

The Fed enters "uncharted territory"

Repo market veteran and president of Kidwell Consultants, **Jeffrey Kidwell,** who has over 37 years' experience in securities finance, discusses how the US Federal Reserve has entered uncharted territory.

In September 2019, the US Federal Reserve (Fed) intervened in the US financial market for the first time since the global financial crisis in a move that – at the time – was met with criticism from US president Donald Trump, who voiced his opinion publicly in a Twitter post when he stated that Jay Powell, chair of the Fed, "failed again".

"September 2019, saw a massive liquidity crisis – no longer an over-abundance of cash – that the Fed had to address and intervene to quell, by putting a ceiling on repo rates and the Fed Funds rate."

However, despite the comments from Trump, Jeffrey Kidwell, a repo market expert and president of Kidwell Consultants, notes that the Fed "had to intervene". He explains: "September 2019, saw a massive liquidity crisis – no longer an over-abundance of cash – that the Fed had to address and intervene to quell, by putting a ceiling on repo rates and the Fed Funds rate. The cash in the market had dried up, as banks were not holding capital to use in the repo market and were keeping tonnes at the Fed as Reserves for Interest on Excess Reserves (IOER), and not entering the Repo market for lower rates.

"Increase in Treasury issuance caused more cash to be sopped up in the outright market and migrated from the repo market, a coincidental corporate tax date caused more problems, and coincidental dealer behaviour caused further issues beyond that, while leveraged accounts lost significant liquidity. Therefore, the Fed wound up having to intervene daily, sometimes twice daily, with massive overnight and term repos pumping cash into the Repo market."

Kidwell highlights that just as the Fed "seemed to be turning a corner" on the ongoing liquidity crisis and started to ease its operations, the Covid-19 pandemic struck and took hold of global economies, causing a number of nations to step-up their efforts in maintaining balance. A number of European and Asian countries introduced short selling bans, while others ramped up their repo operations, of which many are still being continued almost five-months down the line.

In the US, the Fed also started to increase its repo operations as well as immediately easing monetary policy, bringing rates down to 0%, while also "starting up an unprecedented massive new quantitative easing", Kidwell notes.

He adds: "As the Fed said, they now had an unlimited appetite for purchasing securities. COVID-19 shutdown the economy and exacerbated the liquidity problems not only in the repo market, but every market. It also crushed stocks (and thereby the wealth effect and consumer spending), crushed employment (42 million jobs lost in the US), and increased Treasury issuance to astronomical amounts, making all of the Fed's problem areas and its mandates crippled.

"The Fed immediately had to lower rates again, pump more cash into the market, buy more outright securities in all markets, support real estate, equities and commodities, start new (or old) bailout programs from 2008. It then had to work with Treasury's issuance to fund the government's new massive fiscal policy initiatives in the $2.2 trillion CARES Act (tax suspension, student loan suspension, foreclosure suspension, and cash to citizens) and a proposed $3 trillion MECS Act ($2,000 per month to everyone in America, plus $1000 per month for one year after the pandemic)."

The Fed increased the amounts offered in daily overnight and two-week term repo operations on March 10, only one day before the Covid-19 outbreak was declared a pandemic by the World Health Organization (WHO) on March 11. The bank increased its daily overnight operations from at least $100 billion to a minimum of $150 billion, and its two-week term operations were increased from a minimum of $20 billion to $45 billion. However, as the pandemic continued to squeeze global economies, on March 12, the reserve bank again increased its minimum, offering at least $175 billion in daily overnight operations.

"The Federal Reserve is in uncharted territory, as they have been since 2008. Frankly, it is even less charted now, because of the consequences (intended and unintended) from the hundreds of regulations since 2008, the disconnect between action and reaction in the market to Fed Monetary Policy (especially among its Primary Dealers), and an unprecedented and unpredictable economic foe in the Covid-19 virus," Kidwell explains.

However, while the Fed may be facing more challenges than it did during the global financial crisis of 2008, the repo expert highlights the "much expanded toolkit, with newly adapted tools" in the possession of the reserve bank.

Kidwell underlines the Fed's dual mandate: to foster economic conditions that achieve stable prices, and maximum sustainable employment. He notes: "Of course, it isn't as simple as that. For one thing, deflation is much harder to combat than inflation, and that is what this crisis has thrown us into. The Treasury would actually like some inflation, so it can pay its debts back with cheaper US dollars. Also, inflation implies that consumer spending is up and there is economic growth, which can't happen if the 'wealth effect' is ignored."

In America, the 'wealth effect' is derived primarily by rising stocks in 401-K programmes and real estate investments, while also cross-impacted by employment. During the pandemic, stock prices on average fell some 30%, real estate values plummeted and unemployment in the US soared by some 42 million jobs. Despite its "expanded toolkit", the Fed is still battling with deflation, increasing unemployment levels and devaluations in stock portfolios.

Furthermore, whereas the Fed is working tirelessly to inject additional liquidity into its funding markets, the US Treasury is even more rapidly building the Fed's balance sheet on the liability side, "parking huge buffers of cash" in its checking account at the Fed. The current balance of this account is around $1.5 trillion,

> **As the Fed said, they now had an unlimited appetite for purchasing securities. COVID-19 shutdown the economy and exacerbated the liquidity problems not only in the repo market, but every market.**

up from an average of around $600 billion.

Post-pandemic, Kidwell states that the Fed's strategy should "definitely" be more transparent and take advantage of technological advances. He also believes it should relieve some of the regulatory pressures faced by firms in a bid to attract more repo market participants. At present, there are only 24 primary dealers in the Open Market Operations, and Kidwell recommends that the Fed reach out to more than that. He highlights the 300 funds and banks in the reverse repurchase agreements programmes, and urges that the liquidity should be extended to pension funds, corporations, municipalities, hedge funds, asset managers, international banks, credit unions and exchange-traded funds.

"They (the Fed) could finally decide the fate of the other repo market makers in the dealer community or the fate of the primary vs non-primary dealers. They could also institute a standing overnight repo facility, lending a certain amount of cash to repo borrowers every day. In a way, it would be like the old Discount Window, but without any stigma. This would be a new tool in their toolkit," he says.

Kidwell reiterates that the Fed's policy is to "do as much as it takes, for as long as it takes", and adds that it must now include "whatever it takes", whether that be adjusting its policies, amending pieces of regulation and adding incentives. He notes that while the current policy may have worked in previous crises, they must adapt and be applicable to the current crisis. Eluding back to the broad range of tools at the Fed's disposal, Kidwell notes the digital and technological solutions previously unavailable to the reserve bank.

He adds: "The backdrop of the old structures the Fed has created must evolve for these tools to be used most effectively. It has been said the Fed was 'making it up as they go' as we entered this uncharted territory of a pandemic economy. There is some truth to that, and if so, they can also make up a new structural framework concurrently, and learn from the data and adjust accordingly."

In terms of an exit strategy (dubbed 'Fexit' by Kidwell) for the Fed, the repo market veteran believes the reserve bank has three options: continue the trade; increase the trade by expanding the number of brokers or dealers; or decrease the trade by reducing the number of brokers and dealers. Despite this, he is of the opinion that the Fed does not have an exit strategy.

"I think that there are too many exogenous factors affecting their strategy, so there is no one signal that will tell them they can remove all of their intervention and programs. We had no way of predicting that we would all be walking around in masks and gloves, 120,000 people would have died from a disease with no cure that can be killed by sanitiser and soap, that crippled economies and made more than 42 million Americans unemployed. Furthermore, there are indications of surges after re-openings and possible second waves of the virus in many countries," concludes Kidwell. ■

Wematch platform gearing up for its US launch

David Raccat, co-founder & head of EMEA at Wematch explains how the platform is gearing up for its US launch and how its services are developing.

Multiple institutions across Europe and AsiaPac match and negotiate using Wematch, with transactional volumes spanning interest rates derivatives, equity derivatives and securities financing structures. We help these traders match and negotiate to get the result they need, whatever the asset class or instrument, while focusing on the workflow and protecting the users from conduct and market risks.

Over recent months we have been working hard in preparation for extending our service into the US. Despite the challenging environment created by coronavirus and factoring the required size of the community on the platform we are very excited to confirm our US launch in September, as we have been able to manage onboarding via videoconferencing and phone and the initial feedback from dealers has been very promising.

Our objective for the US market is to come up with the most appropriate technology solution for the benefit of US domestic dealers. One of the most important steps we have taken is to build a user acceptance testing interface where traders can log in and simulate what they would be doing on a live platform.

This process has generated a large amount of constructive feedback and we have used some of these suggestions to upgrade the workflow and the product. We are working constantly to determine the types of outputs and reports traders want to receive.

The way this market works in the US is very different from Europe and we have gone into the details of the workflow with the users, which has triggered the development of additional controls and monitoring tools.

In the meantime we are seeing growing usage and interest in our lifecycle/post trade features on total return swaps across EMEA, where on 15 July we reached a significant milestone with more than $20bn ongoing balance in the platform.

Dealers can use the platform to match and negotiate but they can also use it to import trade data. These trades can be conducted direct or through a broker or other platform and dealers can define a set of rules to upload their short and long positions, with the system automatically suggesting substitutions and ensuring proper communication with the counterparty.

This is a proactive tool that we have rolled out to most of our dealer community as a means of strengthening processes and creating a truly front-to-back offering that is STP and low touch. We are very confident that this is going to become the future of our platform and the fact that we can manage matching,

“Our objective for the US market is to come up with the most appropriate technology solution for the benefit of US domestic dealers.”

negotiation, execution and now the life cycle event and post trade is making Wematch a marketplace for total return swaps.

In June we announced a partnership with Pirum to develop a fully integrated front-to-back service solution for clients using our platform on securities lending. Clients can match and negotiate trades in Wematch and leverage connectivity with Pirum to manage all post-trade lifecycle events in a fully STP manner.

We have decided to implement this interoperability so all the dealers that are connected to Pirum can authorise it to send data to Wematch. This ensures complete synchronisation between what the client sends to Pirum and what is in Wematch for all their securities lending and repo trades.

For stock lending and repo this increases the robustness of our products. The first end to end securities finance transactions were executed by Bank of America and we are rolling it out to other dealers so the wider community can benefit from it.

Wematch has also been approached by a large number of dealers to look at how we can leverage our existing workflows on TRS in equities into TRS on government bonds and we are currently looking at this topic with dealers.

We need to make some slight amendments to the workflow, but we are confident that within a couple of months we will be able to deliver a product that can exchange interest, match and negotiate TRS on government bonds. ■

Women in Securities Finance on a mission

Women in Securities Finance aim to create a diverse and inclusive community to foster connections and promote the growth of women in our industry.



Global tri-chairs and founders of Women in Securities Finance (Above from left to right):
Elaina Kim Benfield, senior counsel, Vanguard;
Arianne Collette, executive director, Morgan Stanley;
Jill Rathgeber, director, BNY Mellon

What has Women in Securities Finance been able to accomplish in 2020?

Professional and Leadership Development Programs.
Our vision for 2020 has been to continue to focus on professional and leadership development programs to promote the growth of women in the Securities Finance industry – despite the global pandemic. In February, we partnered with the Information Management Network (IMN) to host an event at the IMN Beneficial Owners' International Securities Finance and Collateral Management Conference. Debbie O'Connell, an LPGA Professional and the President of Live Positive, LLC and Golf Positive, LLC, facilitated an interactive seminar that highlighted the tools necessary to develop personal and professional leadership skills, and the importance of effective leadership to drive business results.

London Chapter Launch.
Our 2020 plans also included the launch of our London chapter. Upon receiving unanimous positive feedback from our London colleagues on the need to create a global community of Women in Securities Finance, Harpreet Bains and Ina Budh-Raja agreed to serve as our London Chapter leaders. Harpreet and Ina were instrumental in launching the London Chapter and bringing recognition to the Women in Securities Finance group—which now has over 125 members—at JPM's annual financing and collateral conference. The London chapter has also partnered with the ISLA Council for Sustainable Finance (ICSF) because we believe our values and goals are aligned. We very much support ICSF's mission and are excited to collaborate and provide input on best practices, especially around promoting diversity and inclusion in the securities finance industry.

Toronto Chapter Virtual Event.
In June, the Toronto Chapter of Women in Securities Finance held its first virtual event. MJ Schuessler and Roanna Kim, Toronto chapter leads, and Elaine Hannigan of Scotiabank, organised and hosted a video conference event sponsored by Scotiabank. The event was originally scheduled for the CASLA conference, however, MJ and Roanna quickly transitioned to provide this event to a broader audience of Women in Securities Finance through video. We had almost 150 attendees join the webcast to hear Tamara Tatham share her inspirational story of being a two-time Olympian and the first woman in Canada to coach an NBA G-League team, Raptors 905. Her powerful journey of goal setting, preparation and dedication were inspiring.

What are you hearing from your members and what are you thinking about for the group going forward?
We continue to adapt to this new "normal" and have refocused our efforts to be virtual and flexible. We have had group calls with all of the chapter leads (New York, Boston, Chicago, Toronto and London) to strategise how we can continue to reach our members and offer content that would be beneficial in the current environment. We plan to continue to offer content that focuses on professional and leadership development, how to effectively navigate this new work environment, and discuss the social unrest that we have seen across the globe. Although we find ourselves in a different circumstances that anticipated, we continue to adapt and promote our mission

"We continue to adapt to this new "normal" and have refocused our efforts to be virtual and flexible."

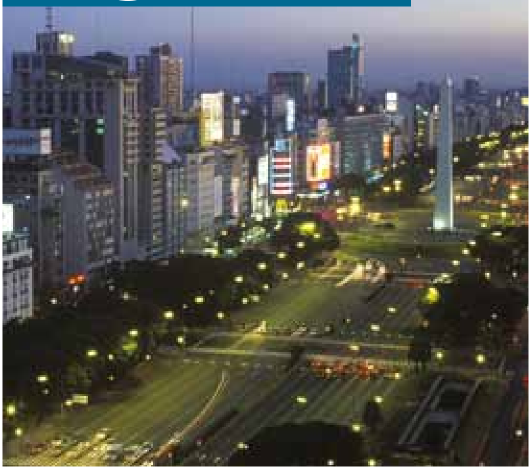
to create a community for Women in Securities Finance and to advocate for diversity and inclusion in the our industry. We are also eager to make philanthropy one of the core components of Women in Securities Finance.

What message would you like to leave to your members?
2020 has been a challenging year for all of us. It has been a year filled with uncertainty and social unrest, but it is a historic time and an opportunity for all of us to unite and stand together. It has further highlighted the need for groups like Women in Securities Finance and validates our mission of creating a diverse and inclusive community to foster connections and promote the growth of women in our industry.

We are looking forward to the day when social distancing is no longer necessary and we can all get together again. Although we have not been able to connect in person, we are now, and always will be, connected by these shared experiences. We encourage everyone to reach out and check in on each other. Continue to share your struggles, challenges, and successes. Now more than ever, the members of this group need to be there for one another and support each other, not only professionally but also personally, because no one is going through this experience alone. This is a rare moment in time when we are all, truly, in this together. ■

"2020 has been a challenging year for all of us. It has been a year filled with uncertainty and social unrest, but it is a historic time and an opportunity for all of us to unite and stand together."

Argentina



Last year, Pablo J. Gayol, partner at Maval, O'Farrell & Mairal, stated that the Argentine capital market "has been in turmoil" since the country requested assistance from the International Monetary Fund (IMF) in 2018, following a run against the Argentine Peso and the impossibility for the government to obtain financing from the capital markets.

However, Kristalina Georgieva, managing director of the IMF issued a statement in March this year, noting that Argentina's president, Alberto Fernandez, who was appointed in December 2019, has placed the country's difficult economic situation at the top of his priorities. She says: "Tackling these issues has become even more pressing in light of the coronavirus pandemic and its significant health and economic impact."

According to analysis from the IMF, taking Argentina's debt-carrying capacity and its existing debt burden into consideration, a substantial debt relief from the country's private creditors will be needed to restore debt sustainability with high probability.

Georgieva adds: "My staff and I continue to engage closely with the Argentine authorities and Economy Minister Martin Guzmán and his team, during these difficult times. The Argentine authorities are taking important steps to contain the spread of the Coronavirus and have underscored their commitment to protecting those at highest risk from its most damaging health and economic effects.

"As we continue to advance in our engagement and work, I would like to stress that our priority is and remains helping support Argentina's recovery with a particular focus on those that have the least and are most exposed. Ultimately, our objective is to pave the way for a stable and prosperous economy."

Regulatory developments enforced through the Capital Markets Law of 2012 erased the definition of securities loan transactions, which effectively put an end to securities lending activity. However, in 2017, the definition and conditions for operating a securities lending programme were reinstated. In April 2018, stock exchange Bolsas y Mercados Argentinos (BYMA) which offers stock trading, fixed income securities and derivatives trading, became the first and, currently, only exchange to launch a securities lending programme under the new provisions.

From September 2019, HSBC Argentina implemented a direct link between HSBC's securities processing system and the local central securities depository core system through Swift, explains Pablo Santiago Arnoldi, head of securities services. He says: "The new solution translates into several efficiencies for clients, including the elimination of the manual loading of instructions into the CSD's proprietary system for settlement transactions, enhanced settlement cycle for securities instructions, and reduced operational risk." ■

Brazil

After Cetip and BM&FBovespa, the Brazilian market infrastructure provider, merged in 2017 and started operating under the label B3 (Brasil, Bolsa, Balcao), it turned its attention towards delivering new products and services in 2018, particularly targeting the securities lending market.

Last year, B3 said it was developing new functionalities to support securities lending activities, including the introduction of securities lending services for government bonds, the automation of broker-dealer accounts and the creation of an electronic securities lending platform.

Brazil saw the largest year-on-year increase in equities securities lending revenues in the Americas as they increased by 27% to $1.1 million in the first quarter of 2020, according to data from IHS Markit. This figure is significantly higher than the $871,000 recorded in 1Q19, which has resulted in the Brazilian market overtaking Mexico's in terms of securities lending revenues.

However, the upward trend did not stop at revenues, as Brazilian equities lending fees almost doubled at the start of 2020, climbing from 0.81% in 1Q19 to 1.53% in 1Q20. Despite this, the start of the year was down on 35% on balances, mirroring the patter seen across the rest of the larger markets in the region. Balances in 1Q20 were $285 million, as opposed to 1Q19's $439 million.

In May, B3 reported in its first quarter earnings that total revenues reached $413 million, representing a 38.7% increase over the same period of the previous year. The increase in revenues came despite B3's introduction of Circuit Breakers in March, which is when the World Health Organization deemed the Covid-19 outbreak a pandemic. Under the

GLOBAL LIQUID MARKETS

Redefining Securities Finance Execution

www.glmx.com
sales@glmx.com
US: +1 (866) 610-4569 (GLMX)
UK: +44 (0)20 3637 9678
@GLMXTech
linkedin.com/company/GLMX

We are working with our clients and aligned with regulators to ensure that, once this crises comes to an end, the financial and capital markets have an appropriate infrastructure to continue developing and playing their key part in the recovery of the Brazilian economy.

Gilson Finkelsztain, CEO at B3

terms of the Circuit Breakers, all trading in the equities segment was interrupted for 30 minutes. Experts in Europe claim that circuit breakers are more effective in stabilising markets than the introduction of short selling bans.

Gilson Finkelsztain, CEO at B3, says: "The spread of the COVID-19 pandemic has brought along unprecedent challenges for businesses and for Brazilian society. Never in the history of B3 had we faced a crisis with such deep humanitarian and operational impacts. Our priorities in this period has been to preserve the health and safety of our employees and the operational resilience of our platforms, to allow investors to have uninterrupted access to the diversified markets and services managed and offered by the company."

Finkelsztain highlights that trading activity of listed and over-the-counter products has significantly increased on its platforms during the pandemic, adding that the exchange has run tests to ensure that its platforms are able to cope with the significantly higher levels of activity. He concludes: "We understand the severity of the crisis and the difficulties making any forecasts given the scenario created by the pandemic, and therefore we are working with our clients and aligned with regulators to ensure that, once this crises comes to an end, the financial and capital markets have an appropriate infrastructure to continue developing and playing their key part in the recovery of the Brazilian economy."

In response to the pandemic, Brazil's central bank, Banco Central Do Brasil (BCB), announced the introduction of on-year repos backed by sovereign bonds in a bid to provide long-term liquidity to offset the demand for short-term liquidity by Brazilian households and companies. With the new measure in place, the BCB says markets will be able to price liquidity cost and the money market yield curve more efficiently. ■

Brazil equities

	2018	2019	Q1 2019	Q1 2020
Securities lending revenues	$7,469,255	$2,616,323	$871,398	$1,102,970
Average loan balances (US$)	$554,792,945	$379,912,603	$438,742,328	$284,987,418
Average fees (%)	1.37%	1.28%	0.81%	1.53%

Source: IHS Markit

Canada

Following a similar trend seen across the Americas, Canada's equities securities lending revenues were up at the start of 2020. Although the increase was not as significant as some of those seen elsewhere, data from IHS Markit reveals that the Canadian market was up 12% as it generated $163 million in equities lending revenue, compared to 1Q19's $145 million.

However, while Canadian equity lending revenues were up in the first quarter of the year, they dipped by 20% to $39 million in April, largely driven by lower returns in the cannabis sector, notes Samuel Pierson, director of securities finance at IHS Markit. Canadian equity lending revenues came in at $39 million for May, highlighting a 20% year-on-year (YoY) decline, putting the year-to-date total at $232 million, a 2% decline YoY, as January and February were the best months on record so far this year.

However, the fees in Canada have risen YoY since 2014 and the theme continued into 1Q20, as fees increased 35.6% to 1.82%, up from 1.34% during the same period last year. Despite the increase in fees, the Canadian market took a significant hit in terms of balances as they plummeted 18% YoY at the start of 2020. The Canadian on-loan balance in the first quarter of 2020 was $35.6 billion, down from $43.5 billion a year earlier, and marking the first time there has been significant drop in the on-loan balance in the country since 2016, when it fell to $54.3 billion from $67.2 billion in 2015.

Commenting on how Canada has performed

"Canadian equity lending revenues increased sequentially from May to June, however returns are still lower than they were in 2019, which has been true for each month of 2020 starting in March. Canadian equities had $279 million in H1 2020 revenues, a 2.8% YoY decline."

Samuel Pierson, director of securities finance at IHS Markit

in the first half of 2020, Pierson says: "Canadian equity lending revenues increased sequentially from May to June, however returns are still lower than they were in 2019, which has been true for each month of 2020 starting in March. Canadian equities had $279 million in H1 2020 revenues, a 2.8% YoY decline."

In July, the Bank of Canada (BoC) announced the introduction of its Securities Repo Operations (SROs) as it looked to support liquidity in the securities financing market. The central bank highlighted its objective to "support core funding markets and to foster the well-functioning" of the Canadian securities market as it unveiled the new programme, which launched on July 27. In a statement, the BoC said: "The SROs will provide a temporary source of Government of Canada nominal bonds and treasury bills to primary dealers to support liquidity in the securities financing market."

The central bank's existing securities lending programme was suspended as the SRO operation launched, but it is expected to resume once the SRO comes to an end.

Canada's stock exchange, TMX, reported positive revenue growth for the first quarter of 2020, rising 12% to $220.3 million from $197.5 million in 1Q19, which John McKenzie, interim CEO and CFO of the TMX Group, says reflect the high volatility and a surge in activity as the markets reacted to the Covid-19 pandemic. He adds: "Turbulent market conditions, particularly during the month of March drove higher volumes in our equities and derivatives trading and clearing businesses, which contributed to a 12% increase in revenue and 14% increase in earnings per share growth year over year. Revenue and earnings growth in the quarter were partially offset by a decrease in capital formation revenue as severe volatility had a negative impact on capital raising conditions." ■

Canada equities

	2018	2019	Q1 2019	Q1 2020
Securities lending revenues	$484,674,421	$131,351,378	$144,857,562	$162,906,737
Average loan balances (US$)	$41,156,738,051	$41,069,102,032	$43,483,598,620	$35,591,710,833
Average fees (%)	1.17%	1.28%	1.34%	1.82%

Source: IHS Markit

Chile

The Santiago Stock Exchange, or Bolsa de Comercio de Santiago (BCS), trades equities, fixed income and international securities, money market instruments and certain derivatives.

The exchange saw its operating results increase by 8.3% year-on-year (YoY) in its 1Q20 results, which it said was largely due to a 5.9% YoY rise in its revenues, which totalled $7.5 million. It recorded a positive performance in its trading and information systems and services arms for the period.

The Contraparte Central de Liquidación de Valores (CCLV) acts as the central counterparty for equities and derivatives and as the clearinghouse for bonds, money market instruments and stock repos. Settlement and custody services are provided through Chile's central securities depository, Despósito Central de Valores (DCV).

In July 2019, BCS signed an agreement with Luxembourg that would allow securities listed in either market to be traded on both of their stock exchanges, therefore providing Chilean traders direct access to new stocks and bonds, explains José Antonio Martínez, CEO of BCS.

“We are providing our customers with all the necessary support and services, making it easier for the market to operate remotely and normally during the COVID-19's contingency, while we have taken care of the health and safety of our employees to stem the spread of the pandemic.”

José Antonio Martínez, CEO of BCS

In 2017, Chile's CSD partnered with Nasdaq to overhaul its technological infrastructure in a bid to bolster its settlement, custody, corporate event management and registry capabilities. The use of this system was sure to help BCS in implementing its fully remote operation of the exchange and its subsidiary CCLV, announced on March 27, 2020 as part of its efforts to prevent further spread of Covid-19.

Martinez said: "We have successfully implemented a remote work plan for 100% of our operations, which allowed all our services and systems to operate normally and at the regular functioning hours.

"We are providing our customers with all the necessary support and services, making it easier for the market to operate remotely and normally during the COVID-19's contingency, while we have taken care of the health and safety of our employees to stem the spread of the pandemic."

In a July market update, Martínez unveiled Chile's new Sustainability Matrix, a platform which enables issuers to communicate the steps they are taking in relation to environmental, social and governance (ESG) factors via the exchange's website.

BCS plans to launch a new options market in the second half of the year as it looks to expand the supply of financial instruments available to both domestic and overseas investors. On the launch, the BCS CEO comments: "This is a new step in the Chilean capital market development, which will provide a greater variety of investment alternatives and enable more efficient management of managed portfolios, along with increasing the liquidity of the underlying markets." ■

Colombia

The Colombian Stock Exchange, Bolsa de Valores de Colombia (BVC), having merged with the Colombian central securities depository, Deceval, in December 2017, offers clearing, settlement and custody services, as well as managing trading and recording systems for the equities, fixed income, derivatives, foreign exchange (FX) and over-the-counter markets.

The Bogota-based stock exchange also holds a share in the Colombian central counterparty (CCP) Cámara de Riesgo Central de Contraparte (CRCC) and FX clearing house Cámara de Compensación de Divisas (CCDC).

Over the past year, BVC has been investing significantly in technology to promote market development and support the adoption of digital tools for investment, according to Juan Pablo Córdoba, president at the exchange.

The organisation started clearing equities through its CCP in September 2019, while also transitioning to a T+2 settlement cycle. Córdoba said: "This is a very positive step forward for the Colombian marketplace – enhanced security, adopting international standards, and new standards for the clearing cycle – all of this will help to enhance liquidity in the marketplace."

In its first quarter earnings report, BVC reported that its consolidated revenues reached $21 million, representing an increase of 32% year-on-year. However, despite BVC's revenues increasing significantly compared to last year, the Organisation for Economic Co-operation (OECD) reported that Colombia

is entering a deep recession, labelling it the "worst in a century", driven by domestic confinement measures that were necessary to limit the spread of Covid-19, the global economic contraction, lower oil prices, and tightening financial conditions.

The organisation reported that real GDP declined by 2.4% during the first quarter of 2019 and, should a second wave of Covid-19 hit the nation, Colombia's GDP will fall by 7.9% in 2020, with a slow gradual recovery being delayed until 2021. However, if the pandemic can be tamed and a second wave avoided, the country's GDP is expected to be down 6.1% in 2020. In its latest report, OECD says: "The recovery will be moderate, led by improvements in consumer confidence and a gradual recovery of investment helped by a lower corporate tax burden introduced in a 2019 tax reform."

In September, one of Colombia's largest pension funds, Protección S.A, picked BNP Paribas as its global custodian, leaving the French bank to safeguard its foreign assets, totalling $7.5 billion (£6.1 billion). BNP Paribas labelled the win a "landmark mandate" with Claudia Calderon, head of Hispanic Latam for the bank, saying: "This is a prestigious new mandate which highlights the strengths of our offering in Hispanic Latam." ■

"This is a very positive step forward for the Colombian marketplace – enhanced security, adopting international standards, and new standards for the clearing cycle – all of this will help to enhance liquidity in the marketplace."

Pablo Córdoba, president, BVC

Mexico

Equities securities lending revenues plummeted by 50% year-on-year in Mexico in the first quarter of 2020, tumbling to $545,000 from just over $1 million in 2019, according to data from IHS Markit. The downward trend continued in Mexico, as fees also fell by more than 15% in 1Q20, declining from 0.48% to 0.40%, while balances dropped more than 40%, from $930 million to $546 million.

Equities securities lending revenues in Mexico have continued to decline year-on-year since 2018, wen revenues were at $5.5 million, before diving to $1.3 million in 2019.

Mexico is the second largest economy in Latin America, second to Brazil's B3, and its main stock exchange, Bolsa Mexicana de Valores (BMV), is the fifth largest in the Americas. The exchange was founded in 1933 and is now a part of the BMV Group, which also owns Mexico's central securities depository Indeval, the derivatives exchange MexDer and market data provider ValMer.

In its most recent economic snapshot, the OECD forecast that Mexico's economy will "pick up gradually" as robust remittances, an increase in the minimum wage and declining inflation boost consumption. However, it notes

> **Becoming part of GuavaTech's global network provides market participants reliable and secure access and opens alternatives for a larger number of financial institutions to trade equities and derivatives in the Mexican markets.**

José Manuel Allende, senior vice president of issuers and information at BMV

that trade tensions and policy uncertainty have reduced business confidence and held back investment, particularly while the industrial and agricultural sectors remain "weak". It said: "Government consumption is subdued, as federal government spending remains restrained."

Despite this, the OECD expects monetary policy to "appropriately become more accommodative" due to declining inflation and economic fall. It acknowledged that investment has been weak, but highlighted that it will gradually strengthen on the back of lower interest rates.

Mexico's economy is expected to strengthen throughout the rest of 2020 and grow by 1.6% in 2021, according to the OECD.

In February, Charina Amunategui, Executive Director, Business Development at MUFG Investor Services, noted that large European and American institutions are "taking notice" of the investment opportunities in Mexico, with firms such as Credit Suisse, BlackRock and KKR pursuing significant opportunities in the country.

BMV announced its partnership with GuavaTech, a managed service provider, in March 2020, which saw BMV offer its market data through the tech firm, providing clients with direct access to BMV's equity and derivatives markets in a managed environment.

At the time, José Manuel Allende, senior vice president of issuers and information at BMV, said: "Becoming part of GuavaTech's global network provides market participants reliable and secure access and opens alternatives for a larger number of financial institutions to trade equities and derivatives in the Mexican markets."

Shortly after partnering with GuaveTech, BMV also revealed an alliance with ACTIV Financial Systems, a global distributor of financial market data. ■

Mexico equities

	2018	2019	Q1 2019	Q1 2020
Securities lending revenues	$5,500,376	$1,345,185	$1,087,574	$545,086
Average loan balances (US$)	$990,700,145	$768,154,827	$929,600,537	$546,413,450
Average fees (%)	0.56%	0.46%	0.48%	0.40%

Source: IHS Markit

Peru

Peru continues to be one of Latin America's best-performing economies, according to the International Monetary Fund (IMF). However, it notes that its economic growth has lost its momentum in recent years, due to a number of domestic and external factors, causing its real GDP growth in 2019 to be just 2.4%.

The IMF highlighted that Peru's real GDP growth averaged 5.4% over the past fifteen years, making it one of the fastest growing economies in the region, allowing it to significantly reduce poverty. Nonetheless, external and adverse domestic factors have caused its momentum to drop-off in recent years, with productivity disappointed. Trade tension have stunted global growth and increased uncertainty, while international financial markets have seen heightened volatility and commodity prices have only partially recovered from the 2011-15 decline.

Peru's stock exchange, the Lima Stock Exchange has been in existence since 1861, although the exchange operating today – Bolsa de Valores de Lima (BVL) – was established 110 years later and became a public company in January 2003.

In a bid to attract more investors, BVL recently slashed transaction fees by 90% for stocks with the highest corporate-rate-governance standards on the S&P/BVL Good Corporate Governance Index, as noted by EquiLend and the RMA in their joint Latin America Securities Finance Guide. It notes that Peru's exchange worked on the implementation of a new stock lending mechanism for international investors that were to looking to short local stocks, and it is working with issuers on the listing of local Reits (Fibras).

Like many other firms, PwC Luxembourg identified a number of opportunities in the Americas – Latin America (LatAm) specifically – and predicted that assets under management in the region will grow by 75% from \$2.4 trillion (£1.8 trillion) in 2018 to \$5.3 trillion in 2025.

In a report published in December 2019, Fanny Sergent, AWM partner at PwC, said: "LatAm is attractive for asset managers as it is not a mature market such as those of North America and Europe, and there is a rising middle class as well as private pension systems in Chile, Peru and Mexico that require asset management services. For institutional investors, the privatisation of infrastructure in this region provides attractive opportunities."

Following a two-year project involving Citibank, Scotiabank, pension fund manager AFP Integra and Peru's central securities depository, Cavali, BVL launched a new securities lending platform in 2019 in a bid to attract institutional investors to the market.

Peru is also a member of Mercados Integrados Latinamericanos (MILA), alongside Chile Colombia and Mexico. The initiative was set up to create additional investment opportunities through the integrations of member countries' stock exchanges and depositories. ■

United States

Samuel Pierson, director of securities finance at IHS Markit, highlighted that the US equities securities lending revenues totalled $1.6 billion for the first half of 2020, representing a 35% increase year-on-year (YoY). This figure is particularly interesting as global securities lending revenues declined by 4.8% YoY in 2020 due to the impacts of the Covid-19 pandemic, which saw countries across Europe and Asia introduce short selling bans as the global crisis took hold.

Pierson says: "Increasing demand for US equity specials, US Treasuries and global ETFs drove increased returns for those asset classes.

The revenue increase seen in the US was driven by a 46% YoY increase in weighted average fees, which "more than offset" the 8.4% reduction in average year-to-date balances, notes Pierson. Special balances were up in the first half of the year, which he notes was caused by the broad short squeeze in hard-to-borrow shares, particularly throughout April and early June. Pierson adds: "Drivers of the upswing in US equity specials include arbitrage trades relating to convertible bonds, SPAC IPOs and exchange offers, as well as increased trading of shares in firms which were facing potential bankruptcy."

Looking towards the start of the year as the pandemic took hold, US equities securities lending revenues came in at $719 million for the first quarter of 2020, data from IHS Markit reveals. The 21% rise illustrates a significant three-figure increase on the $593 million recorded for the same period last year. However, these figures are significantly lower than those recorded prior to 2019. US equities securities lending revenues have been on the decline since 2016, when the annual revenue generated was $3.41 billion. It fell to $2.78 billion in 2017, before tumbling to $2.64 in 2018, and plummeted to $726 million in 2019, according to data from IHS Markit.

Furthermore, Bill Kelly, managing director and global head of agency securities finance for BNY Mellon, adds that the New York-headquartered bank has seen its activity increase "both year-on-year and sequentially" in 2020. He notes: "There was demand for High Quality Liquid Assets (HQLA) such as sovereign assets and dollar funding, and the existence of strong demand for ETFs."

Pierson echoed the trend observed by Kelly, as he highlights that US Treasuries returned $468 million in the first half of the year, 29% more than the figure recorded for 1H19. Beneficial owners in particular benefited from the increased demand for US Treasuries, as

“We’re definitely looking to expand our geographical footprint. We have a US office and, providing Covid-19 does not interfere too much, we will double the size of it in the coming year. Clients demand a global service, so developing in the US and Canada markets is extremely important to us.”

Philip Morgan, COO, Pirum Systems

their returns from the lending the assets in 2020 have been “substantially bolstered” by reinvestment of cash collateral. Although, IHS Markit’s Pierson notes that the trend has steadily declined since late March.

The US repo market was rocked in September 2019 by a surge in overnight borrowing costs linked to a number of events, including quarterly tax remittances which exhausted money market funds. Due to the sudden events, the US Treasury interfered with its domestic money markets for the first time since the global financial crisis, as it kick-started daily repo operations in a bid to stabilise the market.

Tesla continues to be the largest equity short in the US and it recently became the first stock to reach the $20 billion of short interest threshold. However, stock in the electric car manufacturer continued to rise as it reported strong quarterly returns and positive production numbers, despite disruption caused by the Covid-19 pandemic. Tesla’s share price has rallied more than 270% in 2020 and those betting against the firm are down more than $20 billion in net-of-financing mark-to-market losses this year alone.

However, a number of firms are looking to capitalise on the opportunities presented by the US securities lending market, as Philip Morgan, current COO and future CEO of Pirum Systems, points out. Morgan is due to take on the role of CEO from Rajen Sheth on August 10 and, under his leadership, Pirum will look to double its US footprint. Morgan says: “We’re definitely looking to expand our geographical footprint. We have a US office and, providing Covid-19 does not interfere too much, we will double the size of it in the coming year. Clients demand a global service, so developing in the US and Canada markets is extremely important to us.” ■

United States equities

	2018	2019	Q1 2019	Q1 2020
Securities lending revenues	$2,642,237,413	$726,412,807	$593,259,007	$719,694,589
Average loan balances (US$)	$461,131,414,475	$457,611,930,896	$468,624,874,246	$434,903,370,021
Average fees (%)	0.58%	0.69%	0.51%	0.66%

Source: IHS Markit