



A source of digital transformation

Yuka Hasumi reveals EquiLend's plans to transform the securities lending space and pinpoints trading opportunities in the market

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A bright future in finance

Yuka Hasumi, head of Equilend Japan, speaks to Carmella Haswell on the firm's plan to transform the securities lending space through its 1Source initiative, the varying pace of change for regulation globally and trading opportunities

As we continue into 2023, how would you assess EquiLend's securities lending programme performance in APAC so far? What trends and opportunities do you predict for the year?

For EquiLend, 2021 was one for the record books in terms of our Next Generation Trading (NGT) platform, despite having faced the COVID-19 pandemic. This was predominantly the result of global market volatility encouraging an uptick in clients using our NGT platform. This positive

trend carried into 2022 — the year overall was very positive and extremely active for EquiLend.

The total trades we saw globally for 2022 increased by 10 per cent, when compared to an already high number of trades in 2021. When focusing on APAC — Japan being one of the biggest active markets in the region — EquiLend saw a year-on-year increase of 19 per cent in trading volumes for 2022 overall. The same theme of market volatility continued into 2022, which drove securities finance market volumes globally and regionally.

2022 was a really tough year, with global issues permeating through the financial landscape, in terms of the levels of inflation that impacted all global markets, the war in Ukraine and political uncertainty. We have seen different trends in demand and in the squeezes that we saw in the securities lending industry, which was reflected in NGT platform activity.

Looking ahead, there is considerable focus on non-general collateral (GC) execution and bringing other trade types onto the platform for greater efficiency, with a focus on high-touch and high-alpha trading opportunities. For instance, NGT's targeted availability provides a great way to handle specials while still leveraging the efficiency of automation through EquiLend. There is an increased interest in bond lending markets, as well as capturing more participants from markets such as Taiwan, South Korea and the like, as a large portion of these trades are not yet automated.

We are looking to continue to invest in platform improvements to reflect that trading behaviour and the appetite that we have been seeing from the community, as well as to encourage more automation and straight-through processing (STP) across all trade types. One of the enhancements that EquiLend is releasing globally in supporting that growth is our latest launch, Competitive Bid, as part of NGT, a purpose-built hard-to-borrow marketplace.

EquiLend unveiled its 1Source initiative in July 2022. What trends are you seeing in the DLT space in APAC? How are high levels of interconnectivity being provided across Asia?

1Source is currently in the design phase. We are working with key market participants as a joint initiative. For EquiLend, 1Source will be key to demonstrating our strength in innovation, interoperability and emphasising our longstanding client-first approach. Together, this allows us to help transform the securities finance space. 1Source is there to help eradicate reconciliation challenges by providing access to a "single source of truth" using distributed ledger technology (DLT). Increasingly, market participants are looking for technology which is more innovative, scalable and that solves the significant issues that everybody deals with on a daily basis.

From a client's perspective, the decision to adopt innovation may still require a very thorough analysis. What we have been hearing is that DLT is regarded as a foundational technology that I think has potential to create new foundations for the global securities finance space today.

It is still early days from an APAC perspective. A number of people still have questions about what DLT is. Everybody is going to face

headwinds when it comes to new technology and APAC will learn from other regions in this space.

In APAC, participants feel a priority to promote technology adoption to boost efficiency and generate greater revenue streams. I hope it is a key message that APAC participants feel is needed to accelerate that innovation and meet the highest benchmark for greater operational efficiency.

The industry is continuously reviewing the relevance of ESG principles to securities lending programmes. How is the relationship between ESG and securities lending progressing in APAC and what concerns do people face if integrating the two?

Environmental, social and governance (ESG) continues to hit the headlines and present challenges for all vendors and clients across the globe. However, the opportunities are greater by leveraging a variety of technology capabilities and strategy to create business opportunities.

We are working with the market to make it more efficient to comply with ESG principles. For instance, we introduced an additional protocol that provides to lenders the ability to quote a callable date upon execution of a trade over the NGT platform. It allows brokers to be made aware of upcoming events such as annual general meetings (AGM) or extraordinary general meetings (EGM). There are firms which are very ESG aware and want to recall a stock that lacks governance around ESG. Globally, ESG is becoming increasingly imperative.

EquiLend rolled this protocol out to reach more firms in Japan as we found that there is an appetite from onshore online securities brokers, in particular, for us to help support that functionality. It is applicable for global custodians as well, for them to comply with the underlying fund ESG requirements.

While ESG is highly important and is a large focus for clients globally, it is not a simple process to benchmark firms across all three ESG criterias. For example, there is the often-cited example of Tesla being booted out of the S&P 500 ESG Index for lack of ESG credentials.

ESG is more complex than people had initially thought. Last year, EquiLend launched an ESG Data Analysis and Validation service for securities finance market participants to address a clear industry need for higher-quality ESG validation options, to help the market in achieving their ESG goals. ESG is a journey that will be ongoing for some time, EquiLend is here to support the market throughout this time.

Which regulatory changes is EquiLend most focused on this year?

EquiLend is regulated in every region that we operate in. We formed a regulatory technology solutions division called RegTech Solutions, headed up by Kevin McNulty, to create dedicated support for clients in fulfilling their regulatory requirements, regardless of the region that they operate in.

Regulation will continue to challenge market participants and vendors, with each regulation being so nuanced and complex. We all need to be prepared for the impact of such changes by adopting the best solution, technology or products to remain compliant.

EquiLend has a long track record of deploying regulatory solutions around Securities Financing Transactions Regulation (SFTR), Central Securities Depositories Regulation (CSDR) and Agency Lender Disclosure (ALD). These have been some of the most significant regulations that our clients have had to comply with over the years.

CSDR recently celebrated one year since the enactment of the settlement discipline regime. We launched the Settlement Monitor tool ahead of CSDR, a solution that is dedicated to tracking, reconciling and resolving pending and failed securities finance transactions. The benefits that it has provided for our clients, year-to-date, are pretty dramatic. There were significant cost savings and an increase in automation of returns as well, which saw a 25 per cent increase YoY from 2021.

The pace of change for the regulatory landscape varies significantly from market to market. In Taiwan, for example, regulators rolled out consecutive short-selling rules within three weeks in October 2022. On the other hand, Australia and Japan are more akin to the US or EMEA, where there is a very long flight path of deliverance of a regulation. Taking the U.S. Securities and Exchange Commission's (SEC's) 10c-1 proposal as an example, the proposed rule was announced in 2021 and is yet to be finalised. However, EquiLend is ready to support it the moment it goes live.

We are putting substantial effort into ensuring that we can continue to work in each region to prepare for any new regulations that may be on the horizon, and to help our clients do the same.

It has been four years since the Japan-based Government Pension Investment Fund (GPIF) announced its stock lending suspension. Looking back, how has the move

impacted the securities lending sector and what has the industry learnt from this?

I'm sure it was not an easy decision for GPIF, as the fund reportedly generated significant revenue from securities lending activity.

I think there was a short-term impact, but this was predominantly in markets where GPIF's holdings were very active— in the European and US markets for example. The event has made market participants realise that there is a large universe of beneficial owners and possible lenders out there.

The landscape has changed so much within securities lending in the past three years, it would be quite interesting to see what impact GPIF could have if it came back to the market.

How is EquiLend further developing its securities lending solutions in 2023?

For EquiLend, the big focus at the moment is on digital transformation, specifically with the 1Source initiative. DLT definitely has a bright future in finance and within the securities finance space as well. The current global economic landscape may present a short-term setback in terms of technological advancement throughout the market, but, ultimately, it should help to accelerate the upcoming innovations that everybody has been talking about to meet the benchmarks of operational efficiency.

All market participants, in different ways and at different levels, are facing digital transformation, and EquiLend has continued to dedicate more resources and effort to this area. I think we are in a very exciting position right now and we continue to look ahead for new opportunities.

Another priority for us this year is the continued deployment of EquiLend Spire, which is a robust securities finance platform that powers a client's entire business. We are dedicated to working with our current and future EquiLend Spire clients to upgrade legacy systems to EquiLend Spire's state-of-the-art technology.

1Source and EquiLend Spire are just two of our areas of focus in 2023 and beyond. We are proud of our longstanding commitment to developing a more efficient securities finance marketplace globally, with continued innovation across our full ecosystem of trading, post-trade, data and analytics, regulatory technology and platform solutions. ■



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