Interview: EquiLend's Mantle on how T+1 is being managed

The T+1 conversation has burst onto center stage, with some 80% of market participants in a Citi Securities Services survey saying it will impact securities lending. In a recent Finadium report, we highlighted how major market structure changes like T+1 present a choice between creating patchwork solutions versus making fundamental shifts in thinking around long-embedded processes. We speak with Gabi Mantle, global head of Post-Trade Solutions at EquiLend, about the most pressing issues firms are tackling now, and how, ahead of the May 2024 deadline.

BY ANNA REITMAN

Mantle's securities finance career has spanned almost two decades, covering all elements of operations for Deutsche Bank, UBS and then Bank of America, where she ultimately managed the Securities Lending Client Operations Group. Early on in her career, her role included a focus on lender and vendor relationship management, which was how she was introduced to EquiLend and where she's now been for four years.

The T+1 shift from an infrastructure perspective isn't such a big lift for securities finance. It's a market that has always been agnostic to settlement cycles, and transactions such as short covering and returns on the back of recalls can settle on any timeline with already existing technology. The headline-making concerns, said Mantle, stem from anxiety around response time to market forces.

Finadium discussions with market participants found four general areas of risk concern in the move to T+1: business and economics; documents and data; technology and operations. Among those, there was significant focus on how to manage the processing of hard to borrow securities, and particularly related to recalls, something that EquiLend is also seeing rise to the forefront at this stage of the transition with clients.

Recalling hard to borrows

Hard to borrow front-to-back flow is very manual and does not typically go through EquiLend's automated platform NGT. Instead, it is done via voice, email or Bloomberg. Finadium discussions showed that T+1 deadline challenges could wind up adding even more manual steps to an already manual market, which will result in a greater use of tactics for recall management. No one wants a short sale violation nor do dealers want to fail at delivering stock that has been recalled, which leads to negative perceptions from agent lenders.

While Finadium understands that vendors are already working on solutions, the needs of a high-value hard to borrow market confronts new complexities that underscore the urgency for effective automation solutions, and it seems that market participants are not exactly sure how recalls for hard to borrow securities will work in practice just yet.

Towards this goal, EquiLend has recently launched a "competitive bid" product, which can help speed up the hard to borrow borrowing and lending process by improving accuracy and reducing exceptions. Additionally, Equilend's automated recalls product will help take out latencies and eliminates the "risk of things falling off the bottom of an email," Mantle noted.

"We unfortunately don't know any earlier in the process what needs to be recalled, we are reactive to what the lenders are telling us," she said. "When a lender says 'I need this back', they need to be absolutely confident that the borrower has received that notification and the borrower is taking an action on it."

Gabi Mantle, global head of Post-Trade Solutions at EquiLend

Client conversations

Once both sides have agreed the return on the back of the recall, EquiLend has a settlement risk tool that helps get rid of potential mismatches well in advance of coming up against a fail, all of which can be applied to any type of trade, whether hard to borrow or mainstream.

"There's a shift away from that focus on the contract-comparison that exists today that has been in place for many years," said Mantle. "Where we are seeing the change in direction from our client base is how can we help with the activities (like) recalls returns, settlements."

EquiLend's post-trade solutions are reconciling millions of records per day while its recalls and returns automation tools are handling tens of thousands of transactions on a daily basis, and this is going a long way to eliminating exceptions: "That is absolutely where we are seeing a majority of the conversations now with clients: how can they take more advantage of that technology?"

Once the industry is past the T+1 deadline, break rates are set to become among the biggest points, she added: "As settlement cycles are shortened, manual reconciliation of exceptions will become more urgent than before so minimizing the occurrence of these will be critical," said Mantle, noting that on NGT there is a break rate of less than 1%, but off the platform that number is between 25-30%.

DLT and T+0

The T+1 transition also raises questions about whether T + 1 is the optimal or even the end state for the North American settlement cycle, and this is where the promise of distributed ledger technologies (DLT) fits in. A new build to T+0 may carry a price tag of $150-350 million for large firms, according to Finadium estimates. Operationally meanwhile, securities finance market participants need to envision a new path forward, and EquiLend's 1Source is an example of the move towards a unified, single source of data and contracts for the digital future of securities finance.

Mantle noted that numerous operational burdens, many of which are causing the greatest concerns as a result of the T+1 shift, will go away when this technology gears up: "Having a single source of data on a contract can only support and help the onward lifecycle processes. There's no need to invest a lot of resource in keeping your contracts in line…reconciliations are essential today, but they don't need to be in the future state."

Other operational burdens relate to collateral, non-cash in particular, or the triparty RQV process, which now looks like three-way connectivity for collateral providers and receivers after they agree required values. A single source of truth for those values would eliminate the need for that kind of reconciliation.

"If we can eliminate the unknowns and exceptions, then teams can dedicate their resources into that value-add processing rather than fixing things that have gone wrong," she said. "This is a big fundamental shift in the market, but we are progressing…it's not overnight, but it is not as far away as some people think."