

Securities Finance Transformation
The case for change

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Securities Finance Transformation

Survey Key Findings

Securities Finance Transformation



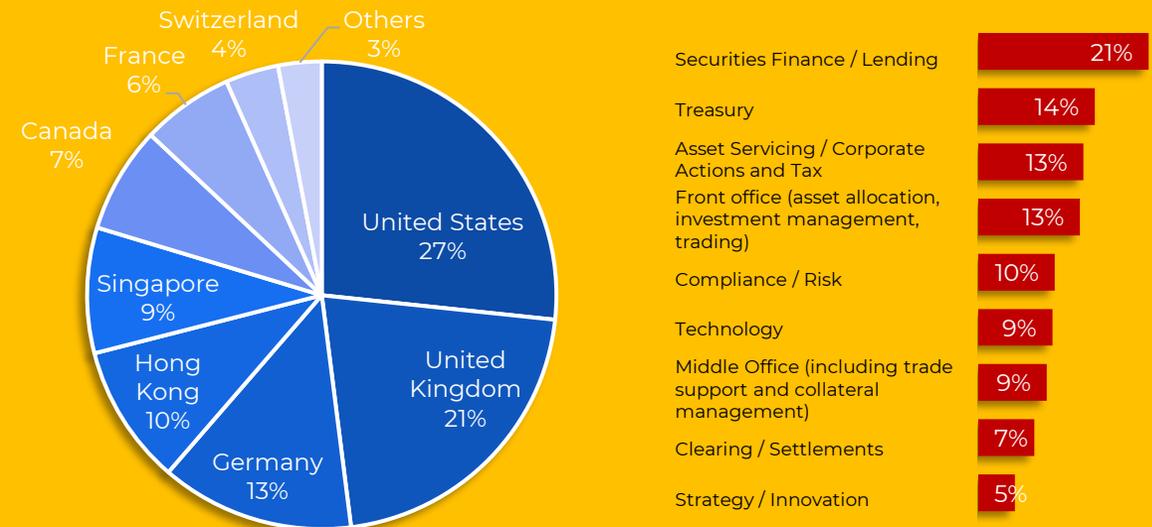
How and where do we need to drive transformation in the securities finance operating model?

Run with **ISLA** and with the support of **Clifford Chance**, **HQLAx**, **PASLA** and **CASLA**, this ValueExchange survey is designed to provide you with statistical clarity on how to focus your transformation journey and prioritisation. Based on insights from agent lenders, brokers and banks of all profiles and geographies, this research explores the case for change, our areas of focus today and the potential impact DLT as a solution.

This document summarises the **key statistical findings** of our research. If you would like to discuss your preparations further, please contact us at info@thevalueexchange.co

Who is this research based on?

These initial findings are based on the views of around **185 brokers, agent lenders and collateral managers** across the securities finance space. They are broken down as follows:



Key Findings overview



Do we have an operational problem?

59% Of market participants see meaningful operational challenges today

36% Of firms are seriously struggling because of manual processing

27% Of the cost of new regulations is in the data management / reporting

Do we have a collateral problem?

41% Of collateral obligations are driven by securities lending activity

11 Collateral is maintained across 11 locations on average

39% Of collateral is still managed on a bilateral basis

What is the solution?

36% Of firms see the elimination of reconciliations as a major P&L driver

34% Of firms see DLT as able to deliver significant benefits

56% Of firms are engaged on DLT today

Using DLT

60% Of firms see DLT's value as a workflow tool

40% Of firms seriously struggle to manage their legacy platforms and standardization in their DLT projects

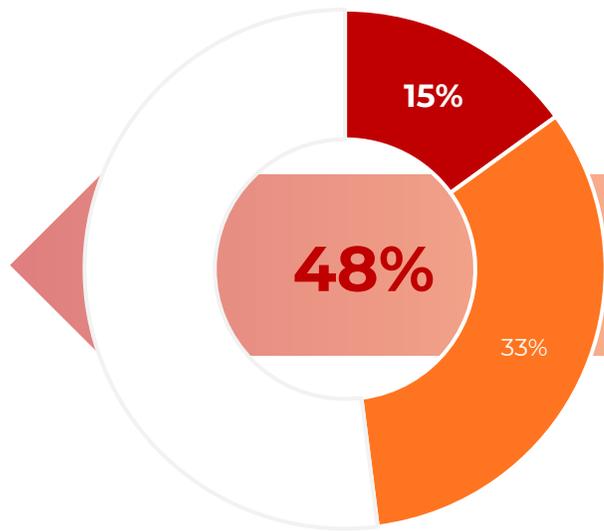
High Strong consensus that CDM is the ideal solution to facilitating standardisation



Is there an operational problem?

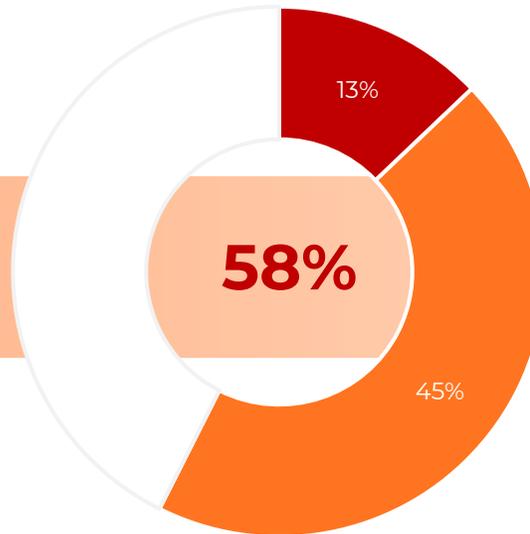
Yes - over half of market participants see meaningful challenges in their securities finance operations

Securities lending and returns

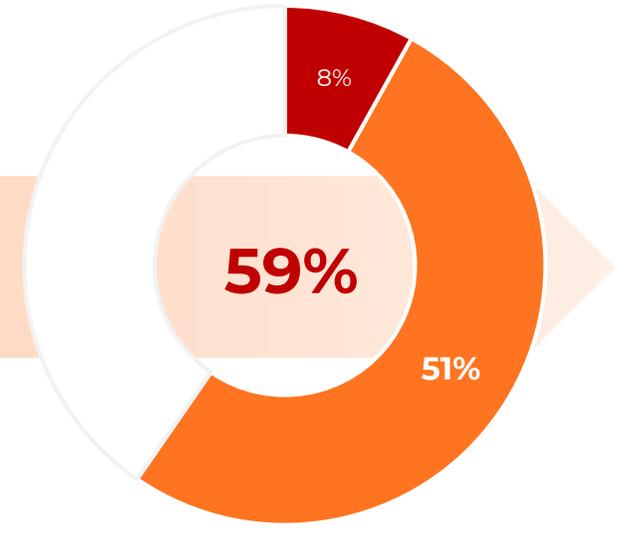


Most acute

Collateral



Lifecycle events



Struggling most

■ Significant impact ■ Minor impact

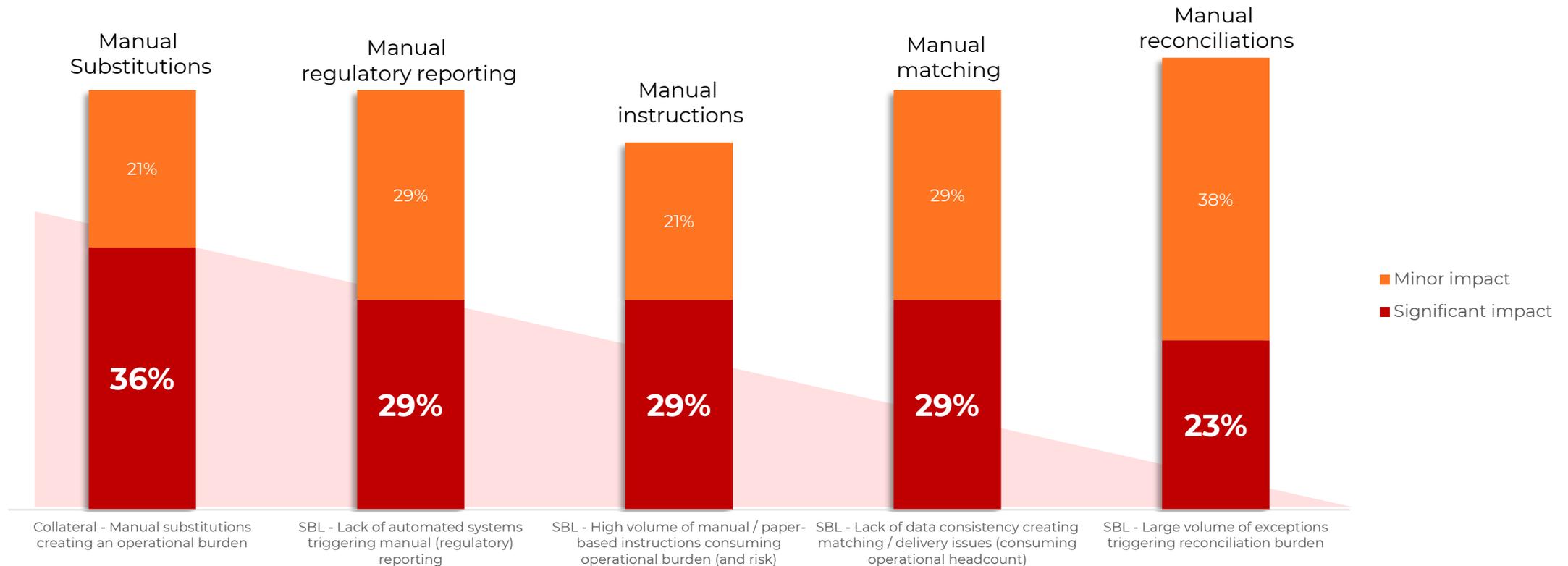
To what extent do the following factors impact your securities financing activities? (% of respondents facing issues in each area)



Where are the operational problems?

Manual processing is causing series issues for a third of the market

Top 5 areas of challenge across the securities finance cycle



Where is manual processing driving costs?

Regulatory reporting and managing collateral / funding are expensive

Cost of a Repo transaction today

Cost of a Securities Lending transaction today



Approximately how would you break down the cost of your average securities finance transaction out of 100%?



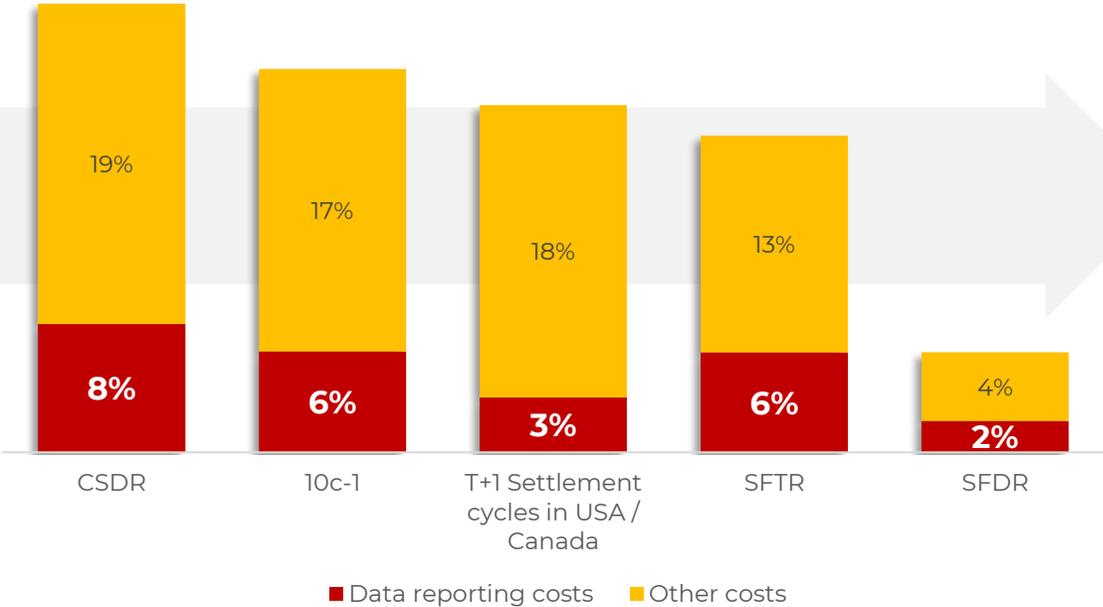
Regulatory reporting as a growing cost driver

We have plenty of new regulation ahead – and spiralling costs

Key factors driving the cost of regulatory change



Expected cost increase in securities lending, as a result of each regulation



How do you expect the costs of your securities lending business to change following the new regulatory changes? Please use negative numbers to denote a decrease, 0 for no change, and positive numbers for an increase in cost.



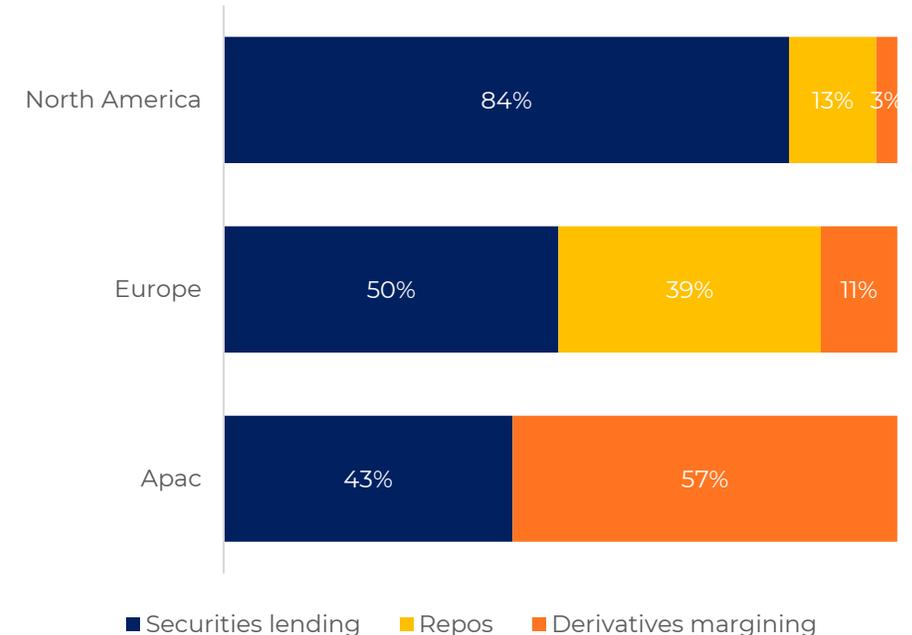
Digging deeper on collateral

Securities lending is spreading our collateral far and wide

How many different locations do you either hold collateral at or need to satisfy obligations at? (Average)

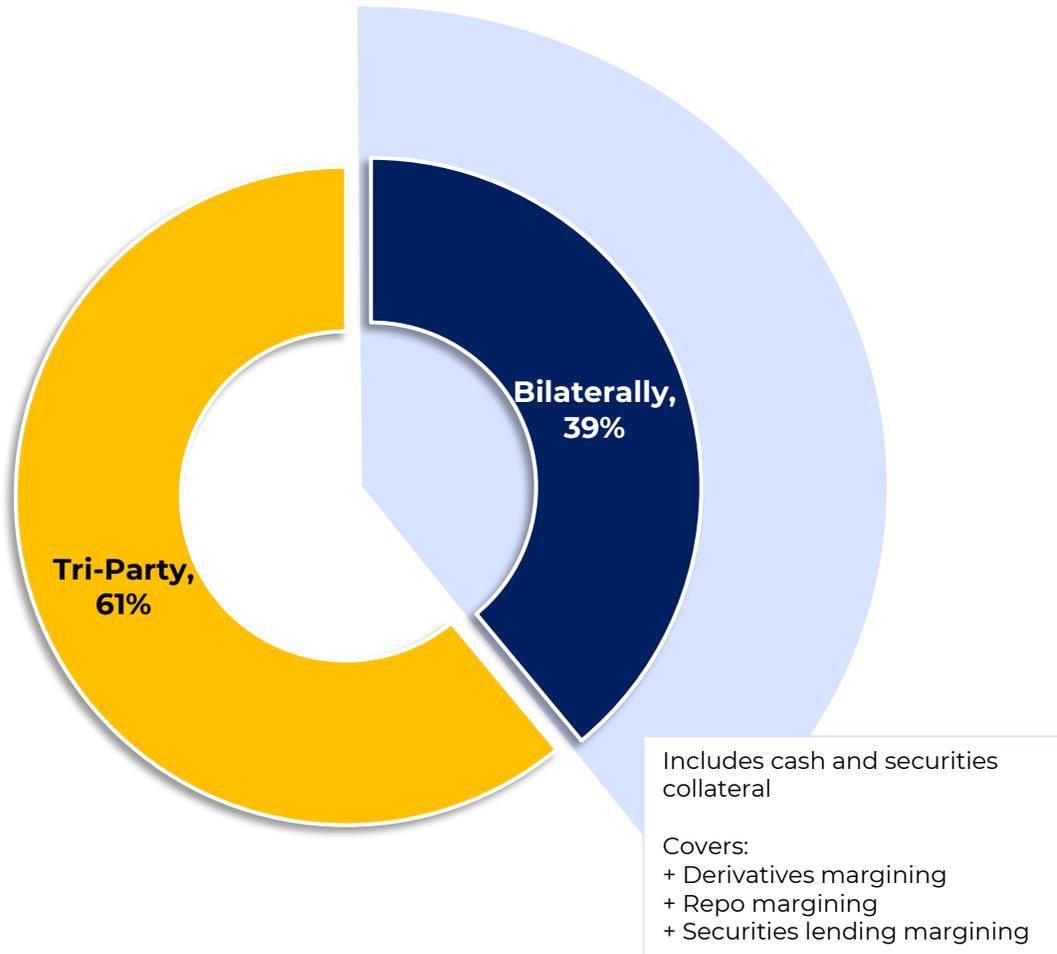


SBL as a driver of collateral needs in North America; Derivatives in Asia-Pacific (Average breakdown)

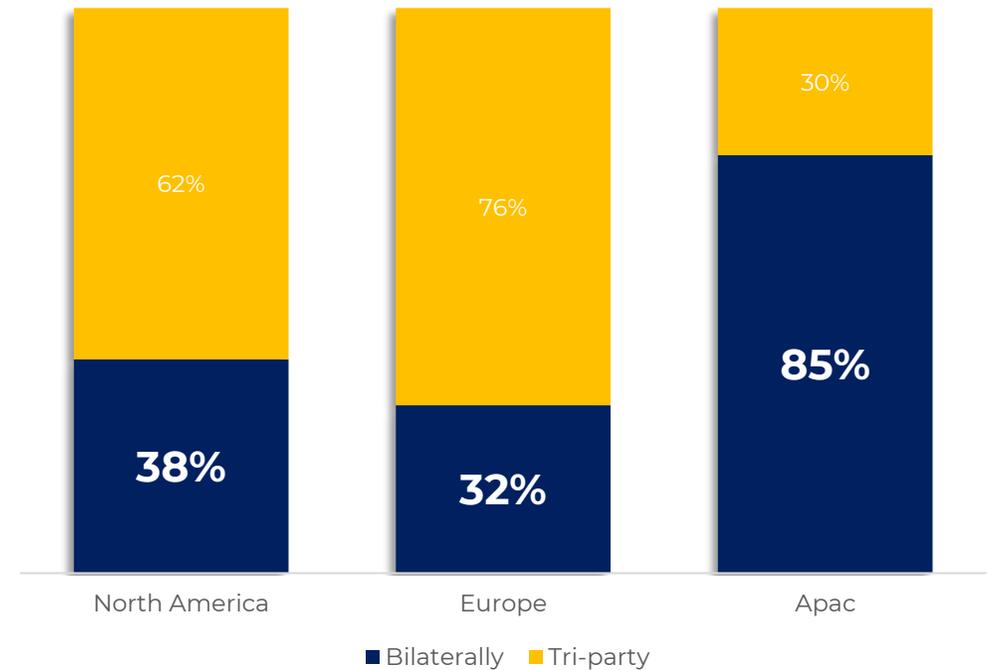


How are we managing collateral today?

39% of collateral is still managed bilaterally



How we are managing collateral today?
(% of respondents)



What percentage of your obligations are satisfied bilaterally vs. by tri-party?
(including cash and non-cash margining across securities finance and derivatives margining)

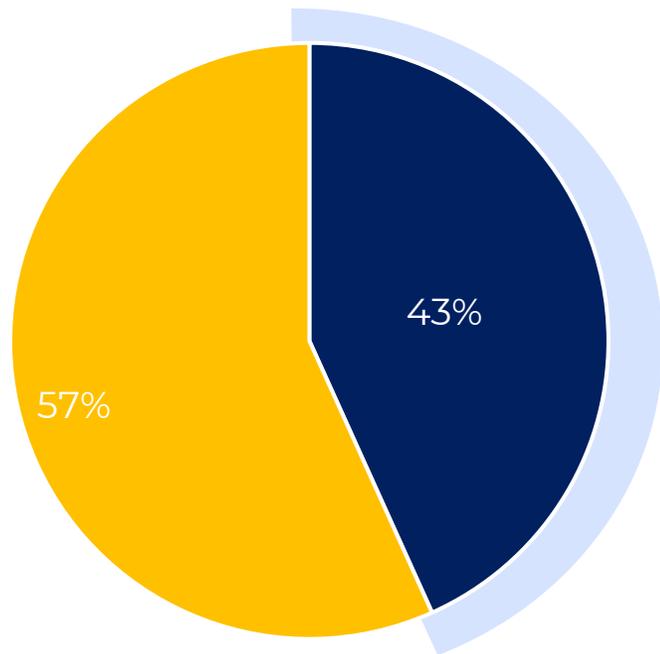


How are we managing collateral today?

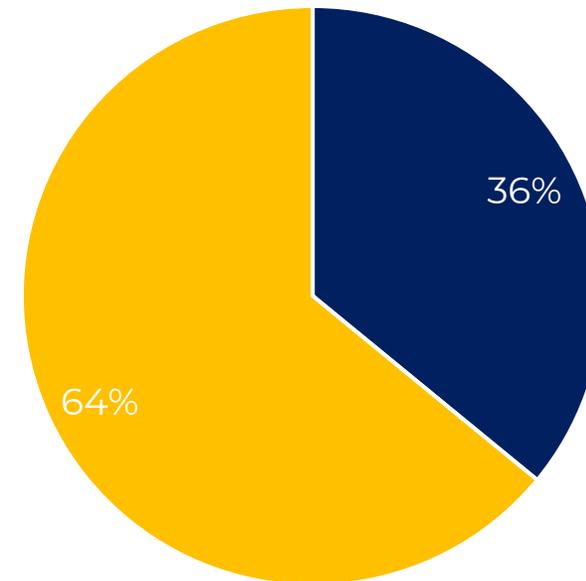
Securities lending is especially challenged – as are smaller players

How we are managing collateral today
(% of respondents)

Securities Lending



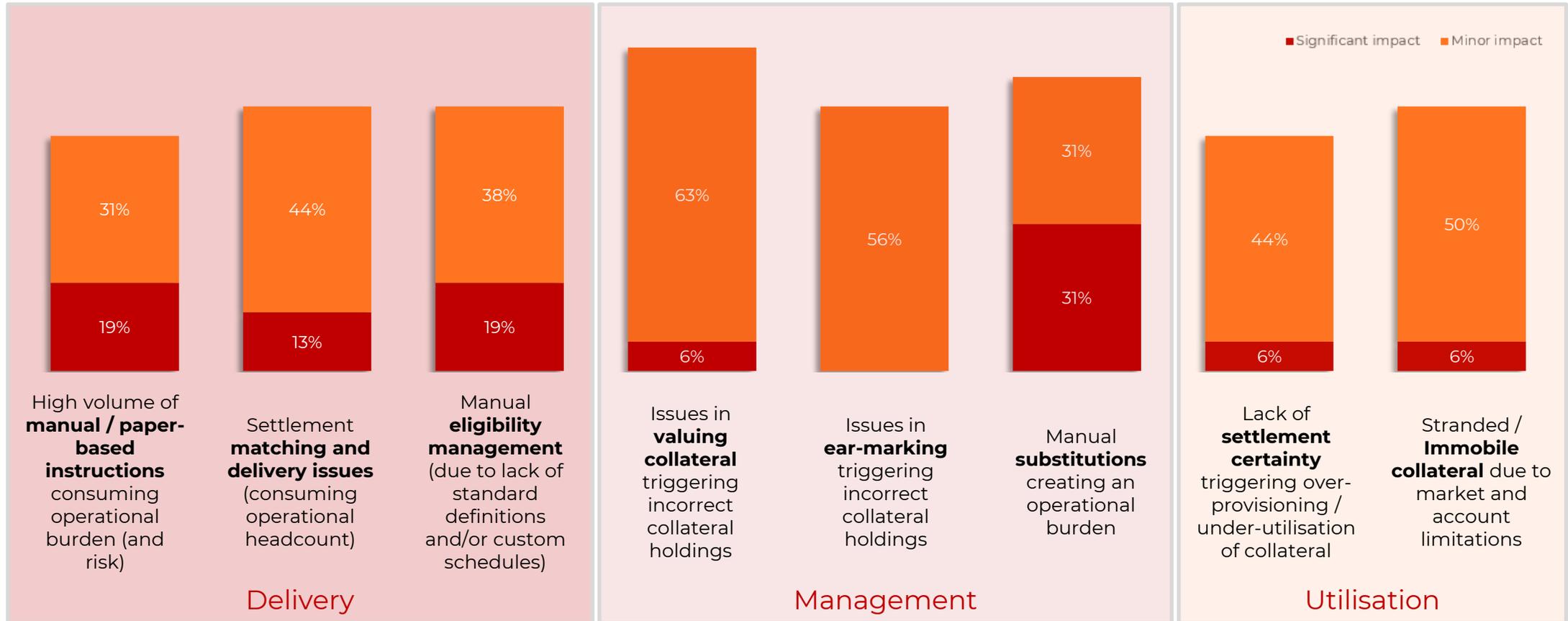
Repos



What does this operating model mean every day?

Significant issues across the collateral cycle – with acute problems in delivery

Key challenges in managing collateral today (% of respondents)



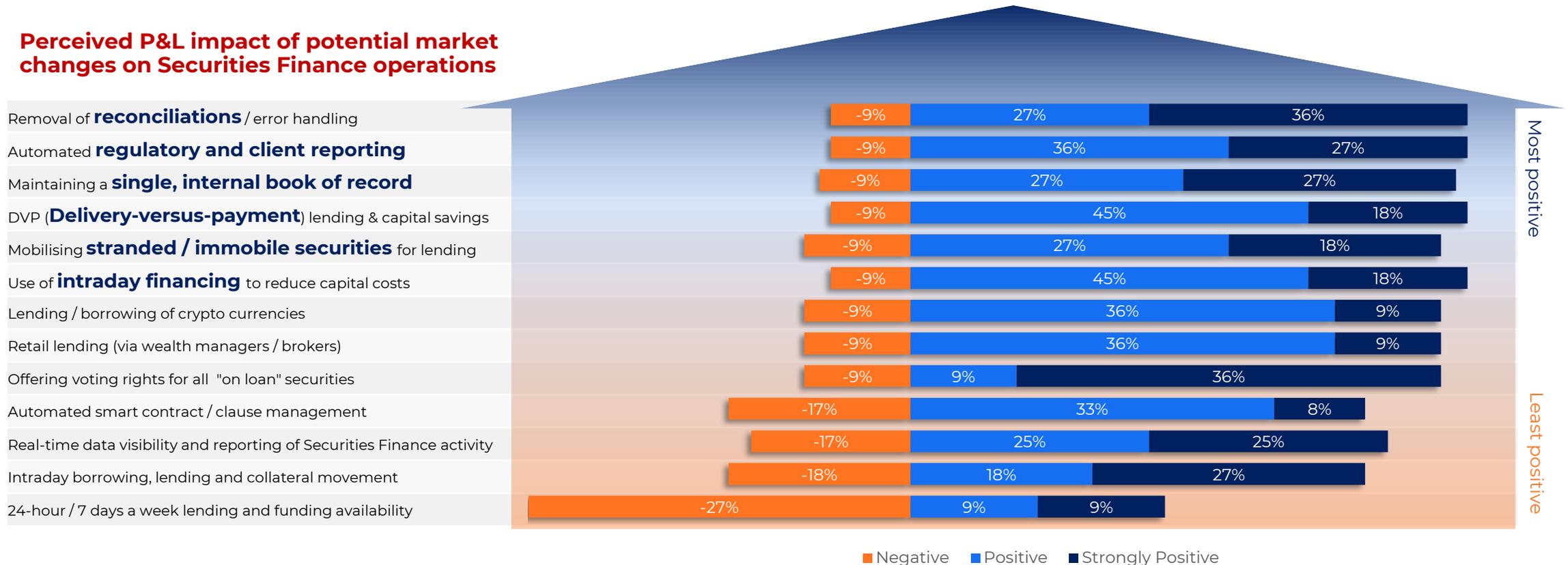
To what extent do the following factors impact your management of collateral?



Where do we want to see change?

Removing reconciliations and automating regulatory reporting would have the largest P&L impact today

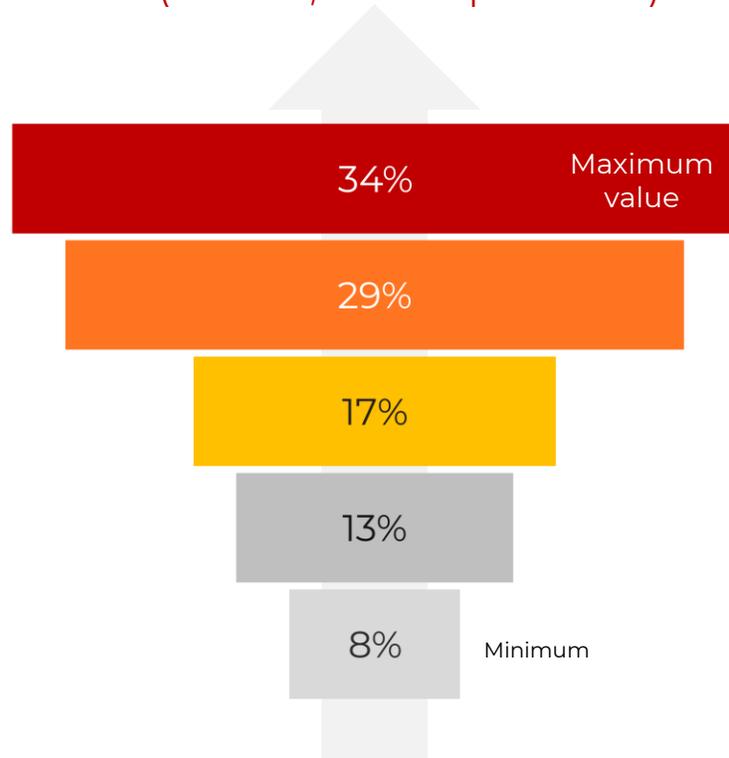
Perceived P&L impact of potential market changes on Securities Finance operations



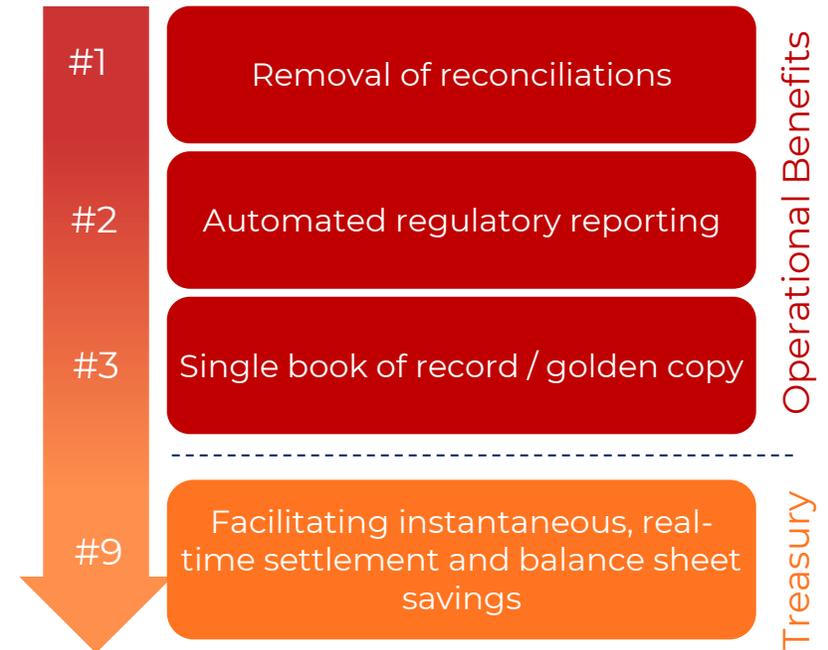
What is the value of DLT?

63% of the market believe that DLT can have a major impact – largely due to operational benefits. But are we seeing the full picture?

Perceived value of DLT in securities finance
(out of 5, % of respondents)



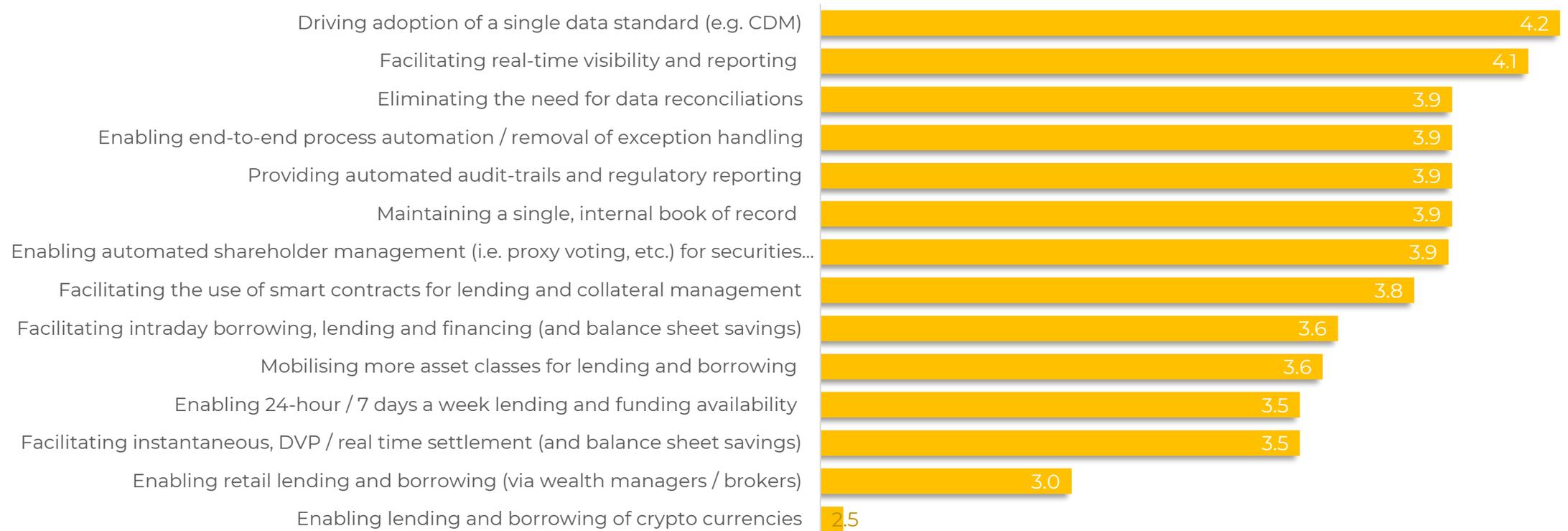
Core perceived value of DLT in Securities Finance
(Ranking of benefits)



Where is the value of DLT?

63% of the market believe that DLT can have a major impact - addressing securities finance's most pressing issues

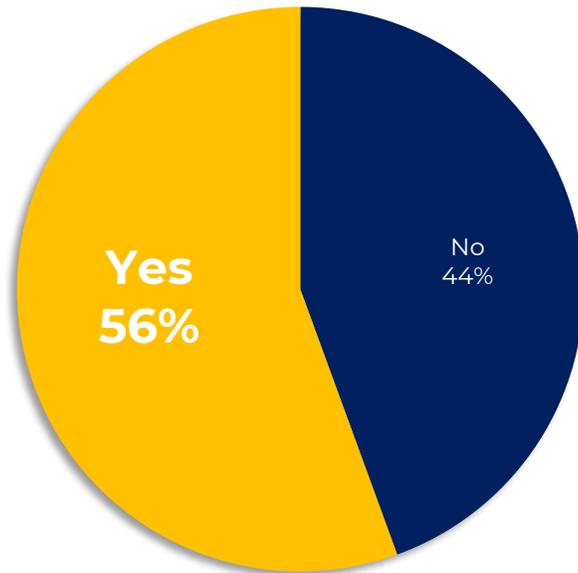
Perceived benefits of DLT (out of 5)



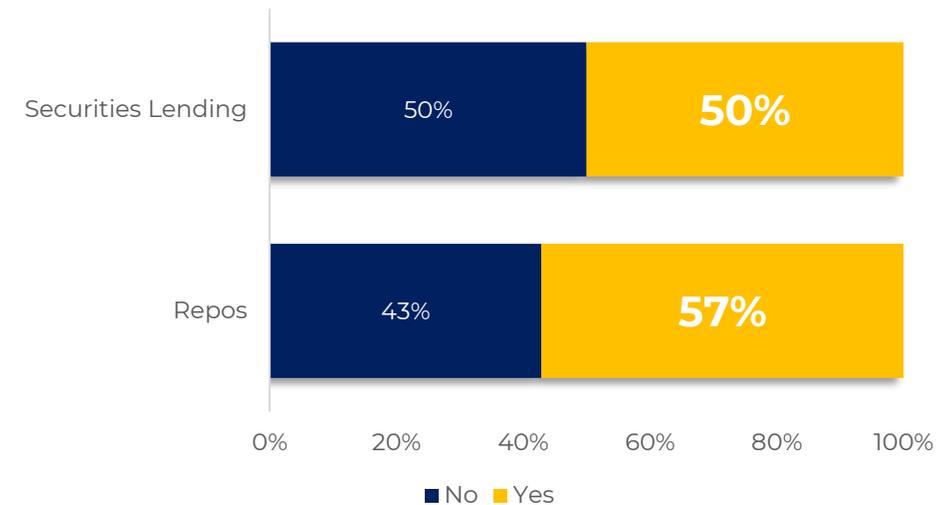
How engaged are we on DLT?

More than half of firms are working on DLT solutions already

Securities finance engagement on DLT



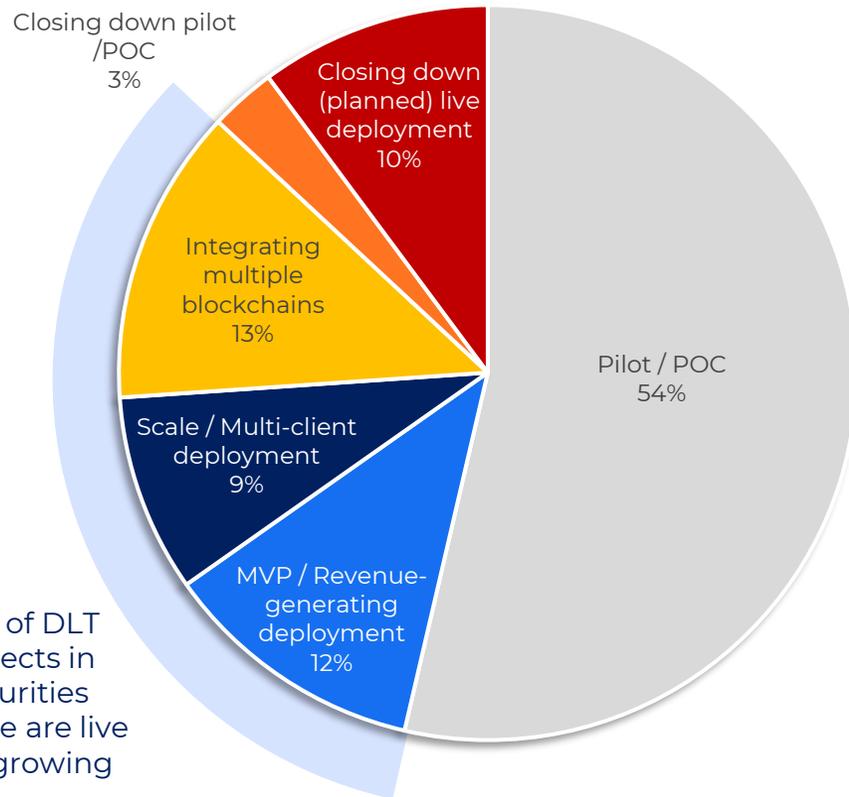
...mainly in the repos space for now



Where are we engaging on DLT?

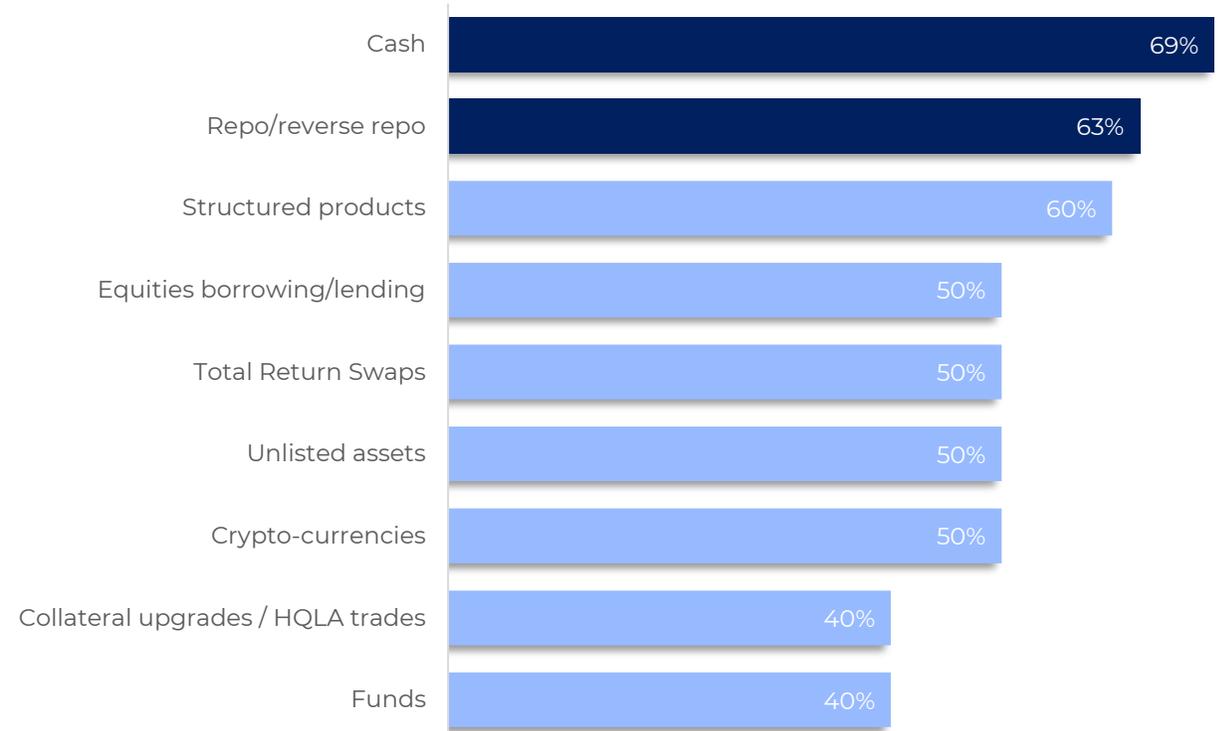
In an industry still mostly focused on discovery, cash and repos lead the way

What types of DLT projects are we working on?



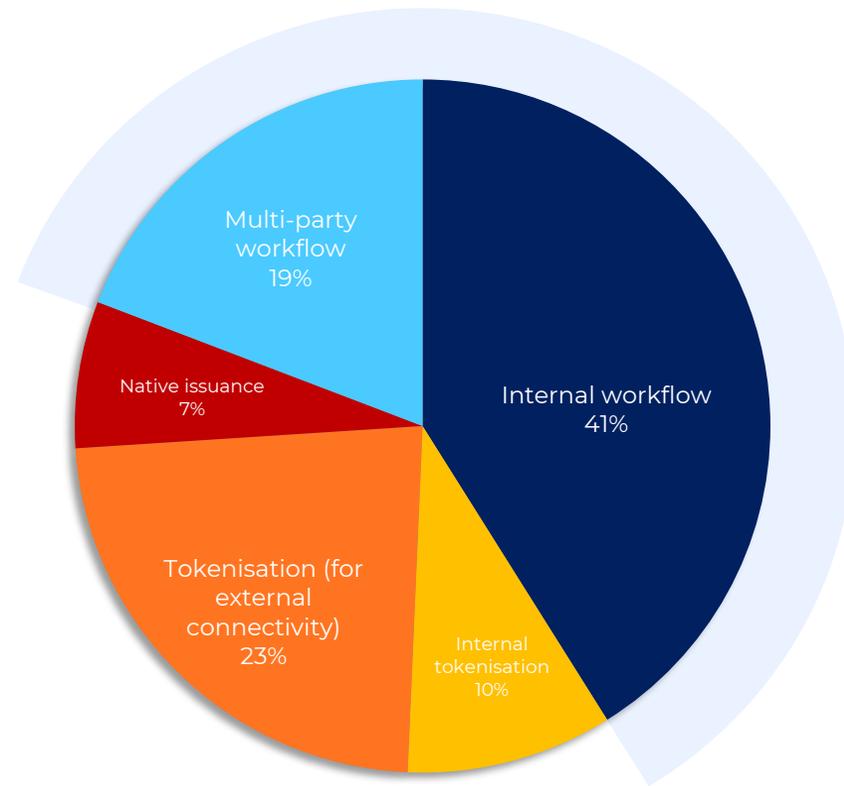
34% of DLT projects in securities finance are live and growing

DLT engagement by asset class



Where are we engaging on DLT?

DLT as a workflow platform – more than a tokenization engine



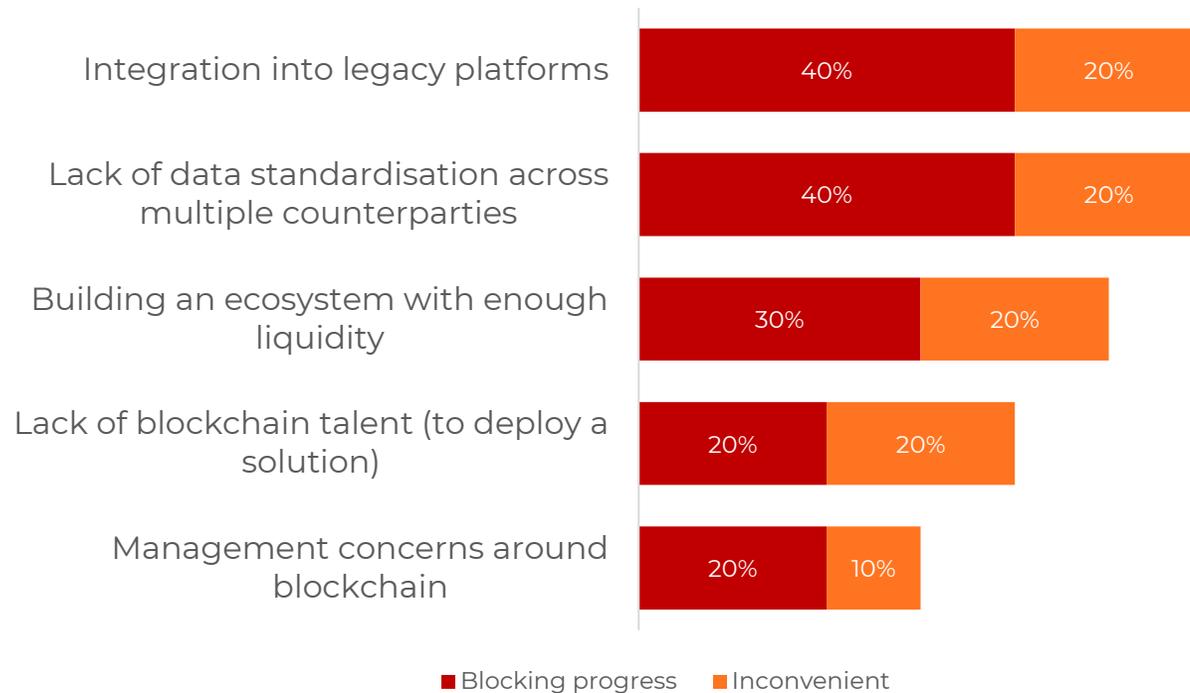
What underlying activity are you using DLT for in each of these areas?



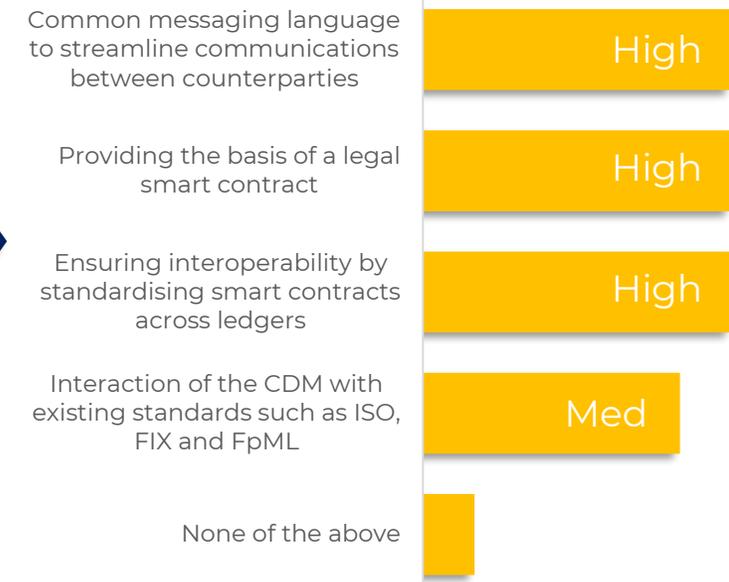
What is holding us back?

Legacy connectivity and data standards: solved with CDM?

Top 5 challenges in deploying DLT projects today (% of respondents facing each challenge)



How do you see the role of the Common Domain Model (CDM) in facilitating greater connectivity?



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