A bright future

Walter Kraushaar of Comyno explains how regulatory requirements and new digital platforms can help to break down silos in the securities finance industry

Like many other global businesses, the securities finance industry is debating and discussing for a long time how to overcome internal silos. Silos can occur in global corporations or start-up ventures with 10 employees only. Regardless of the size, they are contra-productive to an organisation's need to succeed in a rapidly changing world.

It's also important to realise that silos can be vertical or horizontal. Business units divided into asset classes can either lead to high barriers between them or senior leadership completely isolating itself from lower management levels. As a result, an organisation split into silos cannot react quickly to upcoming opportunities that arise in a fast-paced digitalised business landscape. It is also not able to make productive decisions about how to change to seize these opportunities.

In general, silos cut off communication between different business/product/asset class units. Silos create an extremely high loyalty to the immediate unit, which at the same time prevents building trust into other business initiatives within the firm. This might affect the own business line, but would benefit the global organisation and as a result, the silos become inwardly focused, arrange with the status quo and lose contact with the outside world resulting into missing opportunities and new market developments.

Silos are also making it extremely difficult for a company to comply with the increased regulatory reporting requirements. Since the global financial crisis, the Financial Stability Board, the European Systemic Risk Board (ESRB) and the European Commission have started various initiatives. The initiatives look at measures to improve the transparency and monitoring of non-bank alternative credit provision, shadow banking, aside from the general new capital related banking regulations like liquidity coverage ratio (LCR), net stable funding ratio (NSFR), the second Markets in Financial Instruments Directive (MiFID II).

In an EU context, this has resulted for the securities finance industry in the regulation on the transparency of securities financing transactions and of reuse of collateral, the Securities Financing Transactions Regulation (SFTR), which came into force on 12 January 2016.

As those requirements are meant to create transparency for the regulators they also automatically create transparency for the securities finance firms themselves. The new regulations help unintentionally to overcome the established silos as they have to be performed across asset classes, products, business and reporting lines. SFTR will help any company to 'merge' their product silos through an integrated reporting disregarding the current silos. In other words, for the first time, regulatory reporting requirements will push any securities finance business into integration, and it will show new opportunities of allocating and optimise the firms collateral and assets thus creating new business opportunities and a new way of monitoring and managing risks and capital.

As a further result, the European Securities and Markets Authority (ESMA) is required to produce regulatory technical standards (RTS) and implementing technical standards (ITS) for the securities finance business, which also requires a new approach towards digitalisation and securities finance IT.

SFTR aims to enhance transparency and enable regulators to better monitor risks by:

- Introducing reporting requirements for securities financing transactions, similar to those already applicable to derivatives transactions under the European Market Infrastructure Regulation (EMIR)
- Introducing limitations on the reuse of collateral. Not just in the securities financing markets, but also in the wider collateral markets—thus, the application of these limitations is wider in scope than to just securities financing transactions
- Also, Article 4 of the SFTR sets out the transaction reporting and record keeping requirements. For example, the conclusion, modification or termination of a securities financing transaction must be reported to a trade repository (TR), which is in accordance with the SFTR

Comyno has taken a new approach on how to collect, display and merge the required information and developed a platform-based environment, which can be used and connected via various adaptors (interfaces) to almost any given securities finance infrastructures.

With the help of this platform, we can provide customised reporting and inventory management for securities finance market participants across all asset classes and connect them to various central counterparties, agent lenders, tri-party agents as well as asset managers.

Even if new regulatory requirements usually cause more pain, frustration and cost without substantial benefits for the industry it is fair to say that this time, not a market, but a driven regulatory modification of the classic securities finance business models will have the power to overcome the old silos and can provide in combination with the new possibilities of digitalisation a fantastic business opportunity to emerge the securities finance business into a bright future. **SLT**