



Thriving in a changing world

Marton Szigeti, head of collateral, lending and liquidity solutions at Clearstream, speaks to Carmella Haswell about preparing for the go-live of ECMS, the launch of OSCAR, and helping clients to optimise collateral in the current macroeconomic environment

You have been heading Clearstream's collateral, lending and liquidity solutions team since last year. What has happened since then?

We recently restructured our collateral, lending and liquidity solutions business in line with our strategy of further strengthening our

comprehensive securities services business. In 2022, we separated the fund services and the securities services businesses into two separate divisions to increase focus on the different market segments and clients. Our collateral, lending and liquidity solutions product universe continues to focus on collateral management, securities lending and client liquidity — with the client always centre-stage.

One of our focus topics for 2023 is expanding our reach on asset class and jurisdictions. Today, Clearstream is regarded rather as a fixed-income house. We are aiming to become a more holistic collateral manager and securities lending agent, also for equities and exchange traded funds (ETFs). On the lending side, asset class expansion will create a deeper liquidity pool for our borrower clients and opportunities for lenders to maximise their assets in Clearstream's central securities depositories (CSD) and international central securities depositories (ICSD).

The use of new technologies is increasing across the financial industry. How is your strategy changing in that regard?

Data and innovation are a strategic priority within our collateral management product suite.

We are now onboarding clients to our AI-based collateral agreement application Own Selection Criteria with Automated Reasoning (OSCAR) that supports the creation of digital collateral baskets. Nowadays, creating collateral baskets is still a very manual and labour-intensive process that can take three to five days. OSCAR reduces this to mere minutes, also enabling the clients to communicate with their counterparties and integrate the baskets directly with their in-house digital solutions.

Additionally, we continue to bring innovative solutions to the market with the help of our partner HQLA^X. We are the first tri-party agent connected to the distributed ledger technology-based collateral management platform, supporting the operating model as a trusted third party.

Where do you expect OSCAR to take the firm and its clients?

The way OSCAR works is unique as clients get to interact more effectively with each other and the platform via natural language processing.

To set up a basket, clients will define the chosen trade with the intended counterparty. Through the use of artificial intelligence and the natural language processing capability, both parties can set up a compliant basket, communicate and digitally sign completely via the platform. OSCAR improves workflow efficiency for clients and makes it easier for

them to connect with us and each other (see further in SFT Issue 314, 25 October 2022, pp 16-9).

Going forward, we are planning to expand the scope to automate marriage broking and trade suggestion. We are looking to provide a level of artificial intelligence and data mining around this area, so that clients can selectively understand where the demand lies in the markets, what they have to lend and how it matches with others. We will also add new criteria such as ESG scores.

How is Clearstream preparing for the launch of the Eurosystem Collateral Management System (ECMS)?

Liquidity and mobility of collateral certainly is a key priority for Clearstream and the entire market, especially in the preparation for the launch of the Eurosystem Collateral Management System (ECMS) in April 2024.

In 2022, we already reached a milestone in terms of collateral mobility — the harmonisation of Clearstream's Frankfurt and Luxembourg collateral management hubs. We created a single collateral pool where clients can manage their collateral seamlessly across the CSD and the ICSD environments, through a single gateway.

Clearstream is now best positioned for these upcoming challenges. We will be the only Eurozone CSD providing comprehensive triparty collateral management services fully integrated into the ECMS environment and for all Eurozone national central banks. For 2023, the focus of the market will be on extensive development and testing prior to the ECMS go-live.

What impact do you expect ECMS to have on the securities finance industry?

ECMS will unify the management of collateral of national central banks within the Eurozone with the aim to standardise collateral management across the Eurozone, advancing liquidity and automation potential.

We expect the go-live of ECMS and the application of the collateral management harmonisation principles to allow our clients to manage their collateral pools more efficiently. Due to extensive harmonisation efforts, Eurozone banks will have the opportunity to monitor and manage up to 100 per cent of the European Central

Bank (ECB)-eligible collateral in a single place across Clearstream CSDs and ICSD.

Assessing the macroeconomic landscape, how is Clearstream helping clients to optimise the use of their collateral inventory and efficient movement and allocation of collateral?

It is a combination of creating a harmonised collateral pool, as mentioned, and harmonised underlying processes. Going forward, we are looking to help our clients by providing automated solutions and smart data tools so that they can look at their collateral portfolios and better understand their collateral composition and utilisation on a real-time basis.

This is predominantly because of the environment that we live in. Whether in a high inflation and rising interest rate environment or with scarcity of collateral environment, it is paramount to be able to optimise collateral. If you are managing a huge amount of collateral baskets, you may not realise that you are under leveraging the equities that you could have to collateralise certain exposure.

If a firm's collateral schedules are digitised, and the firm wants to update a criterion across all of its collateral schedules to exclude certain items, or to make certain changes, that now takes close to no time because everything is in the same place. That will provide quite a material benefit to the ongoing operations, streamline processes and increase efficiency. It also helps with risk management.

Do you anticipate that concerns around collateral scarcity will persist in 2023?

It is unclear, but what we see coming out of regulators suggests that the collateral scarcity we face now may be somewhat alleviated during 2023. If central banks move from quantitative easing (QE) to quantitative tightening (QT), this should see an injection of high-quality collateral.

What we may face instead of collateral scarcity is collateral fragmentation. It is not yet clear how easy it will be to access this new collateral or if the holders will be willing to lend it. Clearstream is well positioned in that regard with our triparty collateral management platform connecting many lenders and borrowers.

You will be hosting the annual GFF Summit 2023 with the theme “Thriving in a changing world”. What can attendees expect?

We are really excited about the Global Funding & Financing (GFF) Summit this year, specifically for two reasons. Number one: it is back to our usual time slot in February, and we really value that the industry regards us as the kick-off to the year in the securities financing space. We have worked extremely hard over the last four or five months since the last summit to get a packed agenda in place.

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Number two: a major change this year is that we will be combining the central bank and sovereign wealth management forum, which normally happens the day before the summit. On day one, we will have central bankers and sovereign entities in the room with commercial banks and market infrastructure players. We wanted to provide a platform for industry players and policymakers to discuss the challenges that we will face and how to best navigate them.

The current macroenvironment is unprecedented. As an industry, we have not navigated an environment like this under this regulatory framework. There is a lot of uncertainty on the best way forward. It is not going to be a simple matter of rising interest rates and making collateral slightly scarcer, that will not work. There are other underlying issues, the basic supply chains of the world need to be re-engineered to face the changing global environment. This is why the GFF Summit 2023 will focus on the macro environment, with the theme “Thriving in a changing world”. ■