Monitoring the market: Drawing lessons and preparation

Banu Apers, Clearstream's head of securities lending and borrowing, reflects on how the securities lending team is optimising benefits from strategic lending and fails coverage during dynamic market conditions led by macroeconomic trends, policy changes and the regulatory landscape

Confronted by geopolitical uncertainty and high levels of market volatility, Clearstream has continued to expand the pool of lendable assets available through its securities lending programme, bringing on board new lender and borrower counterparties, extending coverage across new locations, and supporting rising activity from firms already active in the programme with new asset classes. Since 2024, this has included the extension of exchange traded fund (ETF) lending across all of its lending solutions.

"Volatility in the market comes in different shapes and forms, so having a diversified pool of lendable assets can give a good hedge for revenue generation," explains Banu Apers, head of securities lending and borrowing at Clearstream.

During a period of post-Covid monetary readjustment, when central banks have been focused on inflation control and on winding down their liquidity support programmes, regional conflicts have continued to disrupt global pricing and supply lines, particularly in energy and commodities markets.

Superimposed onto this background has been the impact of trade tariffs applied by the Trump administration. At the time of writing, the Court of International Trade, a US federal court, has ruled that the Trump administration's use of emergency powers — applied under the International Emergency Economic Powers Act — is unlawful.

With a shift in the monetary cycle, demand for specials has dampened and asset owners are seeking alternative opportunities to generate lending revenue, including a need to optimise returns on their general lending portfolios. Concerns around collateral scarcity during the period of central bank liquidity support have given way to relative collateral abundance as central banks have unwound their asset purchase programmes.

One side effect of these conditions is that it is pushing market participants to look closely at their collateral optimisation and how they allocate assets through the funding and financing channels available to them. With a contraction in ‘specialness’, different trading structures such as collateral transformation trades, structured trades, and currency hedging activities, among others, become key drivers of lending revenue — aligning closely with front office, asset allocation decisions as a determinant of risk-adjusted return generated on the portfolio.

For Clearstream, these market dynamics have provided a stimulus to financing activity directed through its triparty repo product.

Activity through the triparty repo segment has grown as liquidity support through central bank asset purchase programmes has ceased and market participants have sought alternative secured financing avenues for harder-to-finance assets. The shift from relative collateral scarcity to collateral abundance has reduced the cost of sourcing high-quality liquid assets — to meet regulatory capital buffers and for other uses — but regulatory pressures continue to drive banks to explore how they can draw further efficiency from their collateral and liquidity management.

Supporting accelerated settlement

For Clearstream, a primary focus over the coming 18 months will be to support the transition of the EU and UK to T+1 securities settlement. Next-day settlement is an integral component of the European Union’s Savings and Investment Union pathway — previously known as the Capital Markets Union.

“By aligning the post-trade process across EU member states, the UK and Switzerland, T+1 will provide a foundation for more streamlined flows of capital, deeper capital markets integration, and a more competitive and unified European financial market,” says Apers.

Market authorities in the EU and the UK have confirmed that markets will migrate simultaneously on 11 October 2027.

Apers explains that Clearstream is working closely with market participants to help them to prepare for this deadline, drawing lessons wherever possible from the migration experience in the US, Canada, and Mexico, which moved to next-day settlement in May 2024. The North American experience highlighted the importance of detailed planning and testing prior to the go-live date, with regular consultation and information sharing across industry participants helping to pave the way for a smooth transition.

In the EU, the creation of a T+1 governance structure has been important in providing an implementation framework to guide this transition. This contains 12 workstreams, overseen by an industry committee with representation from key industry stakeholders — including banks and brokers, buy side firms, market infrastructure and industry associations — providing specialist guidance on key elements of the project implementation.

Clearstream has created internal development teams that mirror the EU governance structure, providing a voice for its clients on T+1 working groups. Apers states that Clearstream among other streams closely supports the EU Securities Financing Transactions (SFT) working group, where the International Securities Lending Association (ISLA) and the International Capital Markets Association (ICMA) play a central role in coordinating market voice and recommendations.

One of the primary questions in reforming cash settlement markets in the EU and UK will be around ensuring access to intraday liquidity. A T+1 securities settlement environment will, in practice, predominantly be a T+1 or even T+0 environment for funding and financing.

For securities lending, this presents questions around the management of returns and recall deadlines, among other priorities. In addition to the consolidated access to all T2S markets, Clearstream offers a range of tools, including its auto-borrowing facility and support for partial settlement, that can help clients to migrate and to operate in a T+1 or T+0 settlement environment.

“In monitoring use of our fails coverage programme, intraday borrowing has increased by 7-10 fold, relative to use of the end of day borrowing facility, during last quarters,” explains Apers.

"This illustrates that market participants are changing the way they employ fails coverage, increasingly applying this as a liquidity management tool to help them to manage their intraday liquidity requirements."

Inevitably, the migration to T+1 will increase pressure on post-trade processing, particularly for ETFs and collective investment funds. For ETFs, the move to T+1 will accentuate the significance of timing mismatches between primary and secondary market trading. When the investor subscribes to an ETF (or places a redemption), the cash leg typically settles on T+2.

However, settlement for the underlying securities will take place on T+1 — with authorised participants delivering securities to the ETF issuer to create new securities or receiving underlying securities from the ETF issuer when ETFs are redeemed.

Clearstream introduced ETF lending across all its securities lending pools during 2024 and expects this to be a key asset class from a strategy perspective in helping the market to transition to T+1 settlement.

A taste of T+0

While a significant share of interdealer activity in EU financing markets already operates through triparty repo and settles on T+0, the story is different for dealer-to-client activity — sell side transactions with buy side, corporates and other non-bank counterparties — where there will be significant challenges to moving this activity into an accelerated settlement timeframe.

This may provide an additional trigger for firms to migrate financing activity from bilateral relationships to triparty repo as they adapt to T+1 transition and seek more efficient and flexible mechanisms for their liquidity management. In line with this projection, Clearstream has identified a wider range of corporates coming into triparty repo as cash providers.

For securities lending, Clearstream has noted wider geographical coverage across its lending pool, with a rise in new lenders from the Asia Pacific region and other locations becoming active in the programme, whether through strategic lending, fails coverage for commercial bank money settlement via the international central securities depository (ICSD), or fails coverage via the Automated Securities Lending (ASL) Principal which supports ICSD settlement and central bank money settlement on TARGET2-Securities.

As part of its 2025 and 2026 roadmaps, Clearstream has also extended its collaboration with Simcorp to support buy side access to Clearstream's funding and financing channels via the Simcorp One platform, including access to the triparty collateral management, longbox optimisation, and securities lending solutions facilities.

With the changing securities lending landscape, Clearstream closely monitors the challenges relating to the extension of securities lending for retail investors. "With this in mind, we are working closely with vendors and platforms that support securities lending for retail clients to streamline access to this facility. We are at the early stages of this journey," confirms Apers.

Regulatory reporting

In the domain of US regulatory reporting, policy consultation and planning for the US Securities and Exchange Commission's (SEC's) Rule 10c-1a has been ongoing since the initial consultation paper was issued in Q4 2021, with respondents initially asked to submit their feedback before 7 January 2022.

In January 2025, the SEC approved proposed rule changes from the Financial Industry Regulatory Authority (FINRA) relating to its Securities Lending and Transparency Engine (SLATE), the platform that it will operate to support securities lending transaction reporting in the US market.

The live date proposed for the 10c-1a reporting rules is 2 January 2026. However, FINRA submitted a request to the SEC in April asking for an extension to this compliance date.

"In normal circumstances, we would expect to be testing during Q3 2025 in readiness for going live on 2 January 2026 to align with this schedule," notes Apers.

Market participants will require further clarification regarding the steps that they must take to meet their SFT reporting commitments in compliance with this timeline — and to understand how this will dovetail with any existing SFT reporting that they provide against their securities financing activities in the EU or UK markets.