Securities Finance Data 2.0 – The Business Success Pre-Requisite

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Until 2008, the business of securities finance was shrouded in secrecy and opacity. Each stakeholder in the securities finance value chain was unable to obtain a full picture due to the OTC nature of the business and the number of variables attached to each transaction. Over the last decade, however slowly, greater transparency has been achieved due to the involvement of a number of major data players and driven by regulatory edict, better counterparty risk monitoring, and the quest for efficiency and revenue. For some though, several key data points in the securities finance value chain were still lacking in the same level of transparency and this is where Hazeltree has stepped up and stepped in to fill this void. In addition, the securities finance space has been evolving creating different available direct relationships and changing the current ones. This factor has increased the importance of accessible data to all participants not only to level the playing field but also to identify and take advantage of opportunities.

WHAT OUR CLIENTS SAY

"As an operations group, we have now turned ourselves into a quasi-profit center by being able to see what revenue we have saved and made through use of the data and the screens."

HOW TO SEE THROUGH THE FROSTED GLASS

Lack of transparency exists on two different levels. Firstly, some of the stakeholders in the value chain remain outside of the 'ring of knowledge' and they need to be brought inside. Secondly, there is a lack of detail around specific securities' data points that are only available to a precious few. To facilitate this awareness and transparency without impinging upon proprietary market knowledge or confidentiality, Hazeltree has developed its Data Analytics suite of products.

The traditional value chain starts with the institutional holders of securities at one end, followed by the global custodian banks and the broker dealer/primes and ends with the asset managers as the ultimate borrowers. Each stakeholder in this chain has their own priorities when it comes to data.

- **Institutions**, for example, need to know whether they are obtaining the best return on their lent securities.
- In addition, **asset managers** wish to receive information on short market sentiment that may affect their future portfolio construction.
- **Agent lenders** need to know how to respond to broker dealers' demands for borrowers in terms of rates and availability, plus they need to know how they are performing against their peers.
- **Broker dealers** need to know where the securities are available and how secure their borrowed positions are and if they are borrowing as cheaply as possible, or at least at fair market rates.
- The **prime broker desks** not only need to know that they are managing their available securities in the most efficient manner but also how they are performing against their peers in the asset manager and hedge fund space both on a revenue and balance level.
- **Asset managers and hedge funds** need to have information around supply, lendable ability and fees paid and received for their borrowed and lent securities.

In addition, the quest for finding signals in the historical and current data is a huge advantage, especially as the length of the historical dataset grows.

As mentioned above, the traditional linear value chain is evolving thus creating new opportunities for trading partners and a further need for more data and actionable information. Regulatory change, the need for transparency and pressure to diversify counterparty risk has compelled participants toward a more appropriate credit risk analysis of counterparties and also to the establishment of peer-to-peer and direct lending opportunities. More sophisticated systems that allow for single point access to the whole gamut of relationships and data are key to enabling efficient and effective control.

WHAT OUR CLIENTS SAY

"The unique inclusion of swap data is key for understanding the global markets where this form of transaction is predominant."

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THE REGULATORS AND TRANSPARENCY

Increased regulatory scrutiny of both short selling and its supporting securities lending activity shows no signs of abating. Since 2008, every regulatory edict has had greater transparency at its core. This has been the underpinning factor for the work of the Financial Stability Board (FSB), governmental empowerment under Dodd-Frank and the most recent 10c-1 rule, Basel 1 through 4, Mifid, Mifir, Securities Finance Transparency Regulation (SFTR) from ESMA – all of which now have global impact and acceptance. The 'meme' stock involvement of the general investing public and the issues surrounding Archegos have further driven regulators to widen their net for review and reporting.

DATA THAT IS UNIQUE, CURRENT AND USABLE

The main driver is the thirst for data at the regional, sector, industry and security level that is key to supporting the increased activity, itself driven by regulatory focus, diversity of counterparts and more widely available 'standard' data sets. Increasingly, simple availability and rate data for borrowed positions is becoming insufficient for the more sophisticated requirements of the consumers. Repackaging of institutional supply and an indicative rate for the ultimate borrower, while impactful and useful for many participants, particularly where institutions face brokers, is not the full picture that is required by the remaining intermediaries and ultimate consumers.

THE DATA HIGHLIGHTS

Just a few of the additional data points and features that are required are as follows:

- Relative positions between long holders and short holders over time and the various movement between the two, not only in terms of the comparable market value percentages but also a measure of the relative number of participants taking positions one side or the other.
- Access to real rates for in-depth comparison between multiple counterparties to achieve greater value and revenue overlaid by the need to maintain a security of supply.
- How securities compare in terms of crowdedness broken down by region, country, sector, industry and varying size of capitalization.
- Peer comparisons regarding positions and revenue to monitor elasticity of the revenue and balance curves as a result of strategic views on rates versus balances for both security and cash positions.
- Multiple DoD comparisons and ratios around individual holdings and portfolios as a whole dependent upon investment strategy.
- Early warning of potential threats to positions through squeezes and other factors including corporate actions or recalls.
- Strategy level statistics around leveraging trends.

WHAT OUR CLIENT SAY

"Seeing both the long and short side of the data for a particular security is very useful for our portfolio managers."

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QUESTIONS TO ASK

There are several issues faced by stakeholders in the securities finance value chain which lead to several questions that need to be asked:

- Are we seeing the correct fees and rates being applied to our lending and borrowing transactions compared to our peers?
- Are we missing out on differentiating unique datasets that might impact our models beneficially?
- Are we receiving the most up-to-date data points that might give us insight into potential impacts on our current positions?
- Do we have the available information to allow for best portfolio construction?
- Do we have the right data to enable us to ask the right questions?

WHAT OUR CLIENTS SAY

"This is the missing link in the whole securities financing data ecosystem."

THE FINAL ANALYSIS

It is a generally held view that the business of securities finance is the oil in the engine of capital markets. It has now become the reality that data is the oil in the engine of securities finance. However, it cannot simply be an amorphous mass of data. It needs to be readily accessible, understood, accurate, available in one place for efficient usage and carefully presented so as not to undermine competitive advantage or proprietary positioning. It also needs to be flexible enough to cater to the varying applications of diverse types of consumer.

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ABOUT HAZELTREE

Hazeltree is the leading treasury management and portfolio finance solutions provider, serving hedge funds, private markets, asset managers, fund administrators, insurance companies and pension funds with powerful, proactive performance enhancement and risk mitigation capabilities that generates alpha from streamlined operations and reduces a range of liquidity and funding risks. Hazeltree's integrated solution includes comprehensive cash management, securities financing, collateral management, counterparty management and margin management capabilities. Hazeltree is headquartered in New York with offices in London and Hong Kong.

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