

# Securities lending evolving with data transparency, regulation - Hazeltree

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The securities lending ecosystem is evolving through increased data transparency, tighter regulation and better risk control, a senior executive at Hazeltree has said.

New York-based Tim Smith, managing director of Data Insights at Hazeltree, reflected on how the securities lending ecosystem has evolved over the decades, to the point that now there is greater transparency in the securities lending market than ever before.

Smith said: "Transparency used to be a dirty word. In the early days, what everyone wanted was a one-way mirror, where firms wanted to know what the others were doing, but they didn't want to give away what they were doing."

He continued: "In the securities lending ecosystem, there was a visibility line going through the broker who was singularly able to see both sides of the mirror. Since the 2008 financial crisis, transparency has increased, not just due to regulatory pressure, but through a groundswell of opinion among market participants that there was not enough visibility."

Smith said there is greater transparency from agent lenders talking with their institutional clients. There is also greater transparency between hedge funds and their primes because clients wanted to compare their prime brokers' fees.

"Regulators demanded more transparency in terms of reporting, such as the Securities Financing Transactions Regulation (SFTR) in Europe. The SEC regulations created the foundation for greater transparency in the marketplace," said Smith. "Securities finance was used as a back-office settlement function before, but over time it became a front office function. As a result, it needed to have front office controls."

Smith said regulators have historically tried to repurpose rules from the derivatives markets that don't necessarily apply to securities lending.

"Security lending is not a trade, it is a loan arrangement, and that arrangement can be reneged upon, renegotiated, recalled. It's not a done deal as it has a lifespan over which it can be changed. That flexibility sometimes can't be built into some of the regulation that people try and impose upon it," commented Smith.

"Having said that, it's getting better and there's no reason why there shouldn't be more regulation. I don't think anyone's fighting against the fact that there should be more regulation, but just that it needs to be the right regulation."

Smith also said modern treasury management systems are becoming increasingly important to aggregate cash, collateral, margin, securities finance and rates data across all counterparties into a central platform.

He said: "The trend has become much more open in terms of the number of counterparties one has, but operationally and treasury-wise, it's going to become more complicated. A simple, excel spreadsheet doesn't cut it any more in terms of knowing where things are, and I think that's going to be one of the major changes going forward."

"Looking at the recent issues with the banks, there was a lot of demand from our clients for an increase in transparency, so they were pleased with being able to find out where their counterparty exposure was in near real-time and do something about it very quickly."

[The head of technology at Hazeltree said in December distributed ledger technology \(DLT\) will play a central role in the industry's efforts to improve back office processes.](#)

[Hazeltree appointed its first chief people officer in August last year to manage the fintech's next phase of growth, including into securities finance.](#)

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