

The proof of the pudding is in the eating

Survey results this year suggest that shifting market dynamics have affected expectations for the future more than actual performance.

In August last year, the FT ran a piece in which journalist Gillian Tett described most people’s view of tri-party repo as “akin to household plumbing – deeply unglamorous and easy to ignore unless the system breaks down and creates a mess.”

Indications from this year’s survey are that the business remains robust, despite shifts in activity, dictated on the one hand by regulatory pressures on collateral and on the other by changes in the landscape of collateral providers.

An analysis of responses to last year’s survey suggested that tri-party financing was attracting increasing numbers of respondents who did not fit into the traditional participant categories of banks and broker dealers.

Figure 1 shows the nature of the institutions responding to the 2017 Survey. Banks and broker dealers again account for just under three-quarters of respondents, similar to last year. The remainder

consists of buy-side firms, corporates and market infrastructures.

The rationale for using tri-party as opposed to bilateral collateral arrangements is illustrated in Figure 2. For the third year in a row, there remains a fairly even split between two core groups of respondents: those looking to mobilise their collateral pool effectively (44.16%) and those seeking to maximise access to counterparties (46.19%). The percentage with reasons specific to their own circumstances remains below 10%.

The percentage of respondents using tri-party as the management process for more than 60% of their asset pool has fallen slightly this year from 35.10% to 33.50%, continuing a trend observed more sharply last year. In 2015, roughly half of respondents fell into this category.

The number of respondents using tri-party for less than 30% of their asset pool has risen from around 19% in 2015 to 34% last year and close to 40% in 2017. As

we noted last year, this does not necessarily mean that participants are becoming disenchanted with the potential opportunities available from tri-party activity, but rather, in the current climate, are more aware of the opportunity cost of relying on that activity, be it for financing or to earn incremental income, which they may perceive to have grown.

After a significant increase recorded last year in the percentage of respondents using tri-party as both a provider and a taker of collateral (up from 45.90% to 56.90%), the number has fallen back a little to 53.81%. The number of collateral takers only, lending cash against security has also fallen slightly from 27% to just under 26%, while those engaged in financing solely as collateral providers has risen from 16% to 20.30%.

Assets involved

In terms of asset types, the survey confirms that participants using tri-party for

Fig 1. Response sample

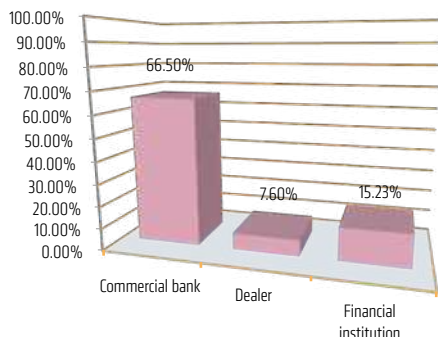


Fig 2. Tri-party rationale

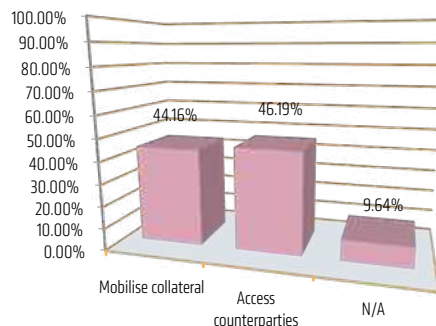


Fig 3. Proportion of assets managed

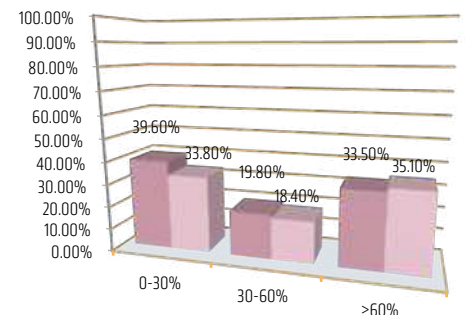
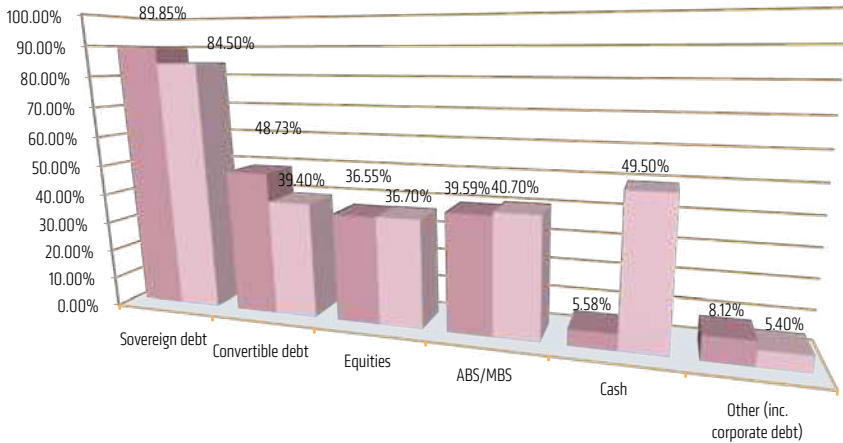


Fig 6. Collateral managed



equities only remain a tiny minority, but that the trend to incorporate both equities and fixed income is accelerating. Those using both, has jumped from 40.40% to 53.81% with the shift coming almost entirely from previous fixed-income-only participants.

Figure 6 takes a closer look at the types of assets involved in tri-party programmes. Unsurprisingly, it shows the popularity of sovereign debt rising from 84.5% in 2016, to almost 90% in 2017. Convertible and corporate debt have also increased in use as collateral, while ABS/MBS and equities remain relatively unchanged at close to 40% and 37% respectively. Cash as collateral shows a significant drop, however. It is not clear at this stage if this is simply a reflection of opportunity cost or a more substantial shift in market behaviour.

While the 2015 survey showed a surprising increase in the use of sterling, this fall back last year to 43% from 76%. This

year it is a few percentage points higher at 47%, while dollar use has dropped back from 74% to 66%. For the second year running, the euro shows the biggest increase, rising from roughly three-quarters to almost 83%.

Client Satisfaction

As far as the aggregate scores in the survey are concerned, client perceptions have slipped a few basis points, but remain comfortably in the Good range (5.00-5.99). In 2016, all questions scored higher than the previous year. Figure 8 shows that most individual question scores have declined slightly, though in most cases by fewer than 0.06 points. The largest drop – 0.16 points – is for breadth of counterparties given access to. While this may have an impact on the fluidity of the market in the future, the score attained of 5.52 suggests that respondents do not view this as a problem at this stage. Broadly speaking, the category of Rela-

Fig 4. Tri-party usage

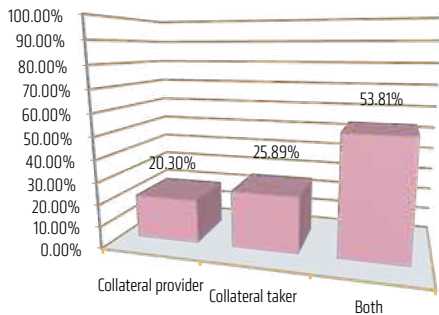


Fig 5. Securities traded

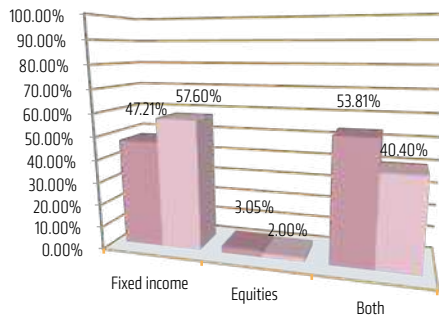
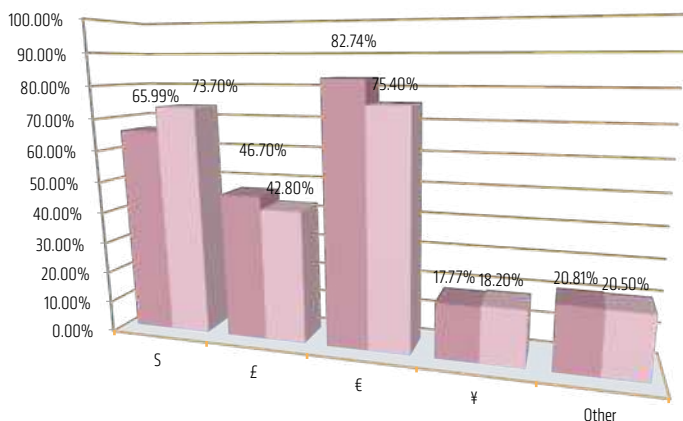


Fig 8. Overall survey scores by question

| Category | Average 2017 | Average 2016 | Difference |
|--|--------------|--------------|--------------|
| Relationship Management and Client Service | | | |
| Understanding your business needs | 5.79 | 5.79 | 0 |
| Quality and experience of front office relationship managers | 5.87 | 5.9 | -0.03 |
| Quality and knowledge of client service personnel | 5.78 | 5.76 | 0.02 |
| Expertise in dealing with exceptions | 5.4 | 5.58 | -0.18 |
| Operations, Technology and Reporting | | | |
| Levels of straight through processing | 5.73 | 5.81 | -0.08 |
| Flexibility in handling substitutions and fails | 5.56 | 5.67 | -0.11 |
| Efficiency and timeliness of margin calls | 5.76 | 5.79 | -0.03 |
| Competitiveness of deadlines | 5.65 | 5.75 | -0.1 |
| Quality of collateral servicing | 5.69 | 5.73 | -0.04 |
| Quality flexibility and timeliness of reporting | 5.57 | 5.7 | -0.13 |
| Collateral Management | | | |
| Sophistication of collateral screening | 5.49 | 5.59 | -0.1 |
| Ability to exclude collateral | 5.51 | 5.64 | -0.13 |
| Sophistication with collateral selection processes | 5.55 | 5.61 | -0.06 |
| Accuracy of collateral valuations | 5.62 | 5.68 | -0.06 |
| Effectiveness of collateral reassignment rehypothecation upgrade processes | 5.58 | 5.53 | 0.05 |
| Product Capability | | | |
| Breadth of range of counterparties given access to | 5.52 | 5.68 | -0.16 |
| Breadth of range of securities asset classes and transaction types | 5.67 | 5.77 | -0.1 |
| Availability of service on a global basis | 5.54 | 5.59 | -0.05 |
| Ability to source lower cost finance and or higher yield | 5.37 | 5.51 | -0.14 |
| Value recieved for fees charged | 5.25 | 5.31 | -0.06 |
| Average | 5.60 | 5.67 | -0.07 |

Fig 7. Currencies included



tionship Management and Client Service has held steady with some decline in scores for expertise in handling of exceptions.

Compared to many of the other surveys conducted by Global Custodian, customer satisfaction levels overall appear relatively high, suggesting that the potential for winning mandates from rivals is slim, barring anticipated exits by existing providers from chunks of the business as reported in the second half of last year.

Methodology

Survey respondents were asked to provide a rating for each tri-party securities financing provider on a numerical scale from “1” (Unsatisfactory) to “7” (Excellent), covering 10 separate functional services. In general, “5” (good) is the ‘default’ low score of respondents. In total five providers received a total of approximately 200 responses from over 90 separate institutions, with several rating multiple providers, yielding thousands of data points for analysis.

Each evaluation was weighted according to three characteristics of each respondent; their size, represented by the value of assets under management; the level of complexity of their business based on the range of services used; and the number of different providers involved. In this way the evaluations of the largest and broadest users weighted at up to three times the weight of the smallest and least experienced respondent.

We remain extremely grateful to those respondents who invested the time and effort to complete the survey. Securities financing is a major issue for all market participants in 2017, as new regulations come into play. Being able to present a comprehensive assessment of one key component of the financing equation, adds greatly to readers’ understanding of the emerging overall position.

BNY Mellon

BNY Mellon’s results have returned to strength this year after a largely IT-induced wobble in 2016. An increase of 0.46 points for Relationship Management and Client Service takes the bank back up to its 2015 score in this category after a drop of a similar amount last year. All other categories record increases of between 0.29 and 0.30 points.

Amongst the bank’s response base, collateral takers are more generous in the scores awarded, than are the collateral providers. This is particularly noticeable in the category of product capability, where the former collectively award a score of 6.10 (Very Good).

BNY Mellon’s best question score is once again for the breadth of asset classes and transaction types available, where it outperformed the survey average by 0.35 points. On the questions of quality and knowledge of client service personnel and levels of STP, BNY Mellon scored below the market average, but the overall impression is of a well-satisfied client base.

One large broker notes that, “Improvements have been made over the year to address system issues and limitations; manual operational support, however, is still slow to react.” One veteran bank client provides a strong endorsement: “I have been working with BNY Mellon for many years and in my opinion they are the best in class third party collateralisation provider. I am extremely pleased with the service provided.”

| Category scores | | | |
|--|------|------|------------|
| Category | 2017 | 2016 | Difference |
| Relationship Management and Client Service | 5.69 | 5.23 | 0.46 |
| Operations, Technology and Reporting | 5.69 | 5.37 | 0.32 |
| Collateral Management | 5.72 | 5.42 | 0.30 |
| Product Capability | 5.67 | 5.38 | 0.29 |

| Best question scores (provider) | | | |
|--|------------|--------|------------|
| Category | BNY Mellon | Survey | Difference |
| Breadth of range of securities asset classes and transaction types | 6.02 | 5.67 | 0.35 |
| Quality and experience of front office relationship managers | 6.01 | 5.87 | 0.14 |
| Efficiency and timeliness of margin calls | 5.89 | 5.76 | 0.13 |
| Competitiveness of deadlines | 5.86 | 5.65 | 0.21 |
| Quality of collateral servicing | 5.84 | 5.69 | 0.15 |

| Best question scores (survey) | | | |
|--|------------|--------|------------|
| Category | BNY Mellon | Survey | Difference |
| Quality and experience of front office relationship managers | 6.01 | 5.87 | 0.14 |
| Understanding your business needs | 5.83 | 5.79 | 0.04 |
| Quality and knowledge of client service personnel | 5.57 | 5.78 | -0.21 |
| Efficiency and timeliness of margin calls | 5.89 | 5.76 | 0.13 |
| Levels of straight through processing | 5.47 | 5.73 | -0.26 |

Clearstream (Deutsche Börse Group)

Following an impressive 2016 which saw Clearstream climb to the top in terms of client perception, it appears to have been brought back down to earth with a bump seeing notable drops across all categories.

On an individual question level, expertise in dealing with exceptions proved a particularly notable drop down to 4.84 from 5.76 in 2016. Another marked decline came in the form of competitiveness in meeting deadlines with one small German respondent noting that “response time for implementing new schedules” was a key weakness.

Relationship Management and Client Service, which dropped 0.64 points, came in for particular criticism. “Operational knowledge is below standard, compared to peers,” noted one client, who also decried a “difficult to manage system when experiencing margin calls, with some lack of transparency.”

A markedly shorter client list compared to 2016 may go some way to explaining such a notable drop, but respondents pointed to a number of areas deemed ripe for improvement.

In spite of such a barrage, there is still praise from some clients, particularly in the area of collateral management. One large European bank also compliments the relationship management team as “very helpful and striving for solutions.” Another large European client for whom access to corporates is a key objective, describes Clearstream as having done “a good job in onboarding this type of client.”

| Category scores | | | |
|--|------|------|------------|
| Category | 2017 | 2016 | Difference |
| Relationship Management and Client Service | 5.31 | 5.95 | -0.64 |
| Operations, Technology and Reporting | 5.25 | 5.94 | -0.69 |
| Collateral Management | 5.15 | 5.76 | -0.61 |
| Product Capability | 5.22 | 5.76 | -0.54 |

| Best question scores (provider) | | | |
|--|-------------|--------|------------|
| Category | Clearstream | Survey | Difference |
| Quality and experience of front office relationship managers | 5.53 | 5.87 | -0.34 |
| Understanding your business needs | 5.45 | 5.79 | -0.34 |
| Efficiency and timeliness of margin calls | 5.44 | 5.76 | -0.32 |
| Quality and knowledge of client service personnel | 5.43 | 5.78 | -0.35 |
| Levels of straight through processing | 5.39 | 5.73 | -0.34 |

| Best question scores (survey) | | | |
|--|-------------|--------|------------|
| Category | Clearstream | Survey | Difference |
| Quality and experience of front office relationship managers | 5.53 | 5.87 | -0.34 |
| Understanding your business needs | 5.45 | 5.79 | -0.34 |
| Quality and knowledge of client service personnel | 5.43 | 5.78 | -0.35 |
| Efficiency and timeliness of margin calls | 5.44 | 5.76 | -0.32 |
| Levels of straight through processing | 5.39 | 5.73 | -0.34 |

Euroclear

Euroclear has made it, two consecutive tri-party surveys with improvement in scores recorded across all categories apart from Product Capability. While the latter is down by 0.05 points, the result of 5.70 would generally be regarded as impressive.

Operations, Technology and Reporting recorded the highest year-on-year increase with an average score of 5.92. One custodian bank noted the ICSD’s improving expertise in this field commending it for its “strong product specialists that are very responsive and helpful in assisting with questions on technical capability.”

Relationship Management and Client Service also hit an average score of 6.00 (Very Good) with such service clearly being appreciated by respondents. One cited Euroclear’s tri-party model as being “the easiest to manage on a daily basis” along with the “excellent’ tools and staff on offer.” One custodian bank notes that Euroclear’s client service is “amazing even if the work is sometimes manual.”

As regards to Product Capability, one client noted that expanding its product offerings to grant access to direct collateral allocations is a ‘key next step’.

At an individual question level, understanding of client business needs and quality and experience of front office relationship managers are particularly highly regarded, scoring 6.06 and 6.05 respectively. “Client service personnel and front office RM’s are professional, knowledgeable and keep our interest at heart. They do an exceptional job,” says one large global bank.

| Category scores | | | |
|--|------|------|------------|
| Category | 2017 | 2016 | Difference |
| Relationship Management and Client Service | 6.00 | 5.94 | 0.06 |
| Operations, Technology and Reporting | 5.92 | 5.81 | 0.11 |
| Collateral Management | 5.78 | 5.71 | 0.07 |
| Product Capability | 5.70 | 5.75 | -0.05 |

| Best question scores (provider) | | | |
|--|-----------|--------|------------|
| Category | Euroclear | Survey | Difference |
| Relationship Management and Client Service | 6.00 | 5.71 | 0.29 |
| Understanding your business needs | 6.06 | 5.79 | 0.27 |
| Quality and experience of front office relationship managers | 6.07 | 5.87 | 0.20 |
| Quality and knowledge of client service personnel | 6.05 | 5.78 | 0.27 |
| Expertise in dealing with exceptions | 5.80 | 5.40 | 0.40 |

| Best question scores (survey) | | | |
|--|-----------|--------|------------|
| Category | Euroclear | Survey | Difference |
| Quality and experience of front office relationship managers | 6.07 | 5.87 | 0.20 |
| Understanding your business needs | 6.06 | 5.79 | 0.27 |
| Quality and knowledge of client service personnel | 6.05 | 5.78 | 0.27 |
| Efficiency and timeliness of margin calls | 5.95 | 5.76 | 0.19 |
| Levels of straight through processing | 6.01 | 5.73 | 0.28 |

J.P. Morgan

The number of banks responding for J.P. Morgan has fallen by a quarter though most of those remaining are sizeable. Category scores are down in two service areas – Relationship Management and Client Service; and Operations, Technology and Reporting. The drop of 0.24 points in the former drags that category from Good (5.00-5.99) to Satisfactory (4.00-4.99). By contract, scores for Product Capability have regained “Good” status after falling to 4.69 last year.

At an individual question level, the bank’s best result is for the breadth of range of asset classes and transaction types. Although its score here of 5.53 is a little below the market average, it remains more than acceptable. Quality and experience of front-office relationship managers and understanding of client business needs are, however, areas of notable underperformance compared to survey averages.

Although client comment points to a breadth of service commensurate with a large provider, a sense of lack of momentum in the business comes through. One large global broker notes that, “Senior management access and focus on key initiatives is sometimes slower than required,” while a European bank observes “few technological enhancements over the last five years, particularly in collateral management tools.”

On the whole, collateral takers are the most generous client segment in their responses, scoring all categories in the “Good” range.

| Category scores | | | |
|--|------|------|------------|
| Category | 2017 | 2016 | Difference |
| Relationship Management and Client Service | 4.93 | 5.17 | -0.24 |
| Operations, Technology and Reporting | 5.16 | 5.22 | -0.06 |
| Collateral Management | 5.13 | 5.12 | 0.01 |
| Product Capability | 5.06 | 4.69 | 0.37 |

| Best question scores (provider) | | | |
|--|-------------|--------|------------|
| Category | J.P. Morgan | Survey | Difference |
| Breadth of range of securities asset classes and transaction types | 5.53 | 5.67 | -0.14 |
| Availability of service on a global basis | 5.40 | 5.54 | -0.14 |
| Competitiveness of deadlines | 5.38 | 5.65 | -0.27 |
| Quality flexibility and timeliness of reporting | 5.37 | 5.57 | -0.20 |
| Levels of straight through processing | 5.31 | 5.73 | -0.42 |

| Best question scores (survey) | | | |
|--|-------------|--------|------------|
| Category | J.P. Morgan | Survey | Difference |
| Quality and experience of front office relationship managers | 5.05 | 5.87 | -0.82 |
| Understanding your business needs | 4.95 | 5.79 | -0.84 |
| Quality and knowledge of client service personnel | 5.29 | 5.78 | -0.49 |
| Efficiency and timeliness of margin calls | 5.26 | 5.76 | -0.50 |
| Levels of straight through processing | 5.31 | 5.73 | -0.42 |

SIX Securities Services

SIX Securities recorded a modestly successful set of results in this year’s tri-party survey with an impressive improvement of 23 basis points in Relationship Management and Client Service. One client noted a “good personal relationship” as well as praising the provider for “knowing what I need.”

Results at an individual question level showed impressive out-performance in scores for quality and experience of front office relationship managers as well as quality and knowledge of client service personnel. SIX Securities Services also exceeded the top five average survey scores, including levels of STP and efficiency and timeliness of margin calls. The former was cited by several respondents as a particular strength of this provider.

Lower results were, however, recorded for a number of specific functions. The most noticeable of these were breadth and range of asset classes and transaction types, down 0.65 points to 5.16, and breadth of range of counterparties given access to, down 0.59 points to 5.13.

Some grumbles are expressed regarding customer facing IT. “Platform too sophisticated for daily usage” and “new platform takes getting used to” suggest user-friendliness could be improved. One Swiss bank complains about the “capacity to manage exception and/or customisation”. And hints that the collateral management engine requires some tweaking to match current business and risk requirements.

| Category scores | | | |
|--|------|------|------------|
| Category | 2017 | 2016 | Difference |
| Relationship Management and Client Service | 6.02 | 5.79 | 0.23 |
| Operations, Technology and Reporting | 5.76 | 5.83 | -0.07 |
| Collateral Management | 5.38 | 5.56 | -0.18 |
| Product Capability | 5.14 | 5.40 | -0.26 |

| Best question scores (provider) | | | |
|--|-------------------------|--------|------------|
| Category | SIX Securities Services | Survey | Difference |
| Quality and knowledge of client service personnel | 6.19 | 5.78 | 0.41 |
| Quality and experience of front office relationship managers | 6.12 | 5.87 | 0.25 |
| Levels of straight through processing | 6.06 | 5.73 | 0.33 |
| Relationship Management and Client Service | 6.02 | 5.71 | 0.31 |
| Understanding your business needs | 5.96 | 5.79 | 0.17 |

| Best question scores (survey) | | | |
|--|-------------------------|--------|------------|
| Category | SIX Securities Services | Survey | Difference |
| Quality and experience of front office relationship managers | 6.12 | 5.87 | 0.25 |
| Understanding your business needs | 5.96 | 5.79 | 0.17 |
| Quality and knowledge of client service personnel | 6.19 | 5.78 | 0.41 |
| Efficiency and timeliness of margin calls | 5.81 | 5.76 | 0.05 |
| Levels of straight through processing | 6.06 | 5.73 | 0.33 |