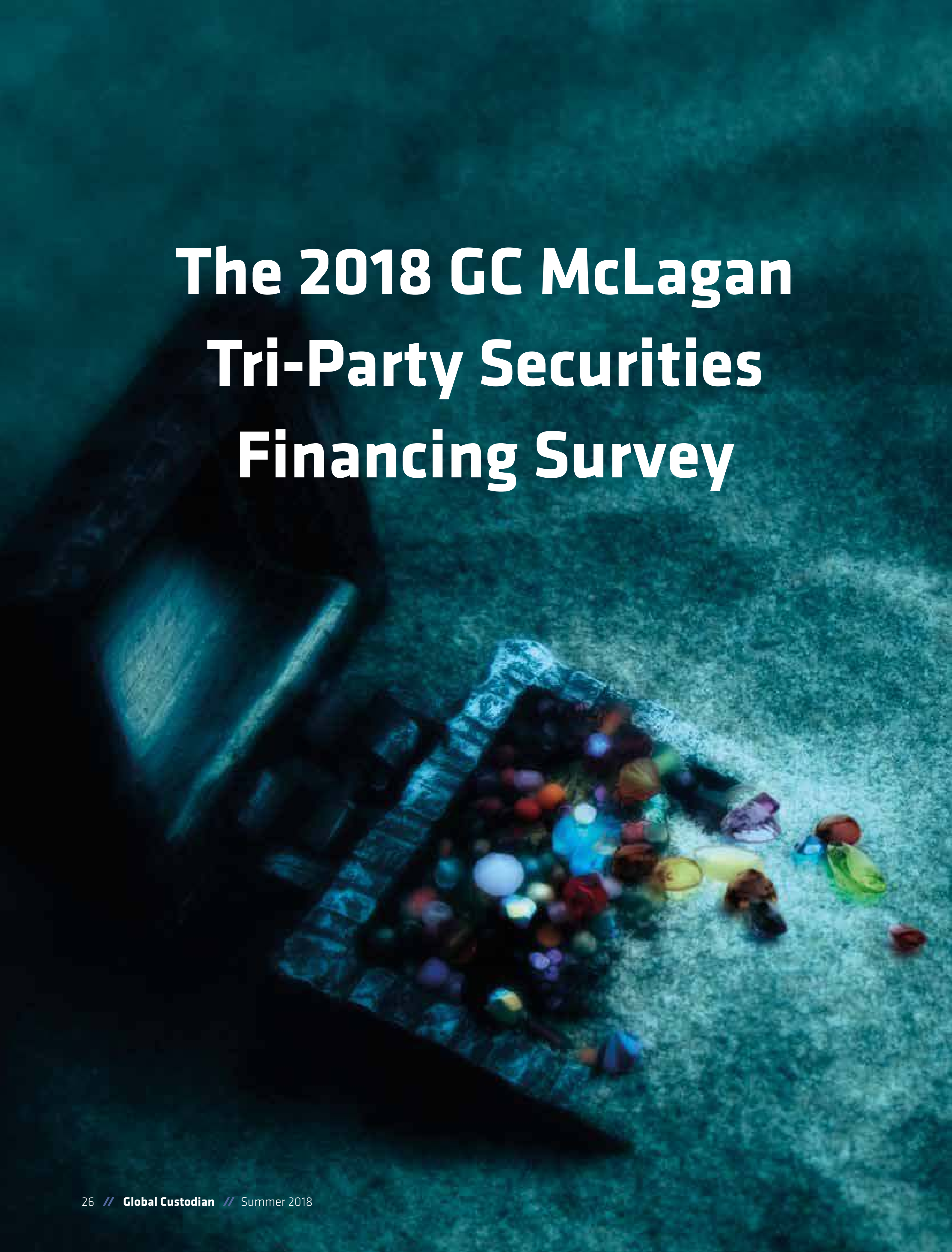
The 2018 GC McLagan Tri-Party Securities Financing Survey



The 2018 GC McLagan Tri-Party Securities Financing Survey

The 2018 Tri-Party Securities Financing Survey is the first in which AON McLagan Investment Services (McLagan) has provided full questionnaire distribution and completion and data analysis services to Global Custodian (GC), following the conclusion of an outsourcing agreement in March this year.

McLagan has contracted to supply GC with a fully outsourced survey service, to include the creation and distribution of questionnaires, the collection of completed questionnaires, analysis of the data received, and the scripting of scores and texts for publication in Global Custodian magazine.

However, the 2018 Tri-Party Securities Financing survey process did not include the creation of the questionnaire. Instead, in order to meet the pressing demands of the survey timetable, McLagan distributed the same questionnaire that GC used in the 2017 Tri-Party Securities Financing survey.

The questionnaire was modified before distribution to match the McLagan methodology. Instead of being asked to rate a tri-party agent from 1 to 7, where 1 is "very weak" and 7 is "excellent," respondents were asked to agree or disagree with a series of statements about the services they receive.

Since the survey closed in early June, McLagan has analysed the completed questionnaires received, excised incorrect or misleading responses, weighted the verified responses, and prepared the performance benchmarks, scores and texts that are published here.

Research reports based on the survey findings are now available from McLagan, while GC remains responsible for all awards, including digital accreditations, advertising and sponsorship. For further information, contact daljit.sokhi@globalcustodian.com or dominic.hobson@mclagan.com.

We are most grateful to the respondents who took the time and trouble to complete a questionnaire, and to the tri-party agents who assured clients the survey was important to them and who completed a provider questionnaire of their own.

Methodology

The 2018 Tri-Party Securities Financing Survey asked respondents to address 24 questions divided between four service areas: Relationship management and client service, operations, technology and reporting, collateral management, and product capability. Ninety-seven completed questionnaires were received on behalf of five tri-party agents, of which four received at least 10 responses, which is the minimum number required to assess an agent adequately enough to publish their average scores, both in absolute terms and relative to the average scores in each service area. Respondents were asked to agree or disagree with a series of statements about their tri-party agent on a 20-point scale of -5 to +5. Though responses could vary from "strongly agree" or "strongly disagree," whether a response is negative or positive is contextual to the statement. Respondents could also select "Do not know" or "Not applicable," or skip a question altogether. However, to facilitate comparison with the scores of previous years, the analysis published in this issue of the magazine is based on a reconfiguration of the answers given by respondents to match the 1 ("very weak) to 7 ("excellent") scoring range familiar in GC surveys for many years. The scores are also weighted for range of services (whether the respondent is a collateral provider, a collateral taker, or both), the types of repo trades executed with the agent (fixed income, equity, other), the value of transactions outstanding with the agent (both fixed income and equity), the variety of collateral accepted by the agent (fixed income, equity, other), the range of currencies supported by the agent (US dollars, euro, sterling, yen, other) and the proportion of the tri-party business of the respondent placed with the agent.

*Editor's note: Although JP Morgan does offer a tri-party service, the bank did not attract enough responses to warrant a write up.

BNY Mellon

The improvement evident in 2017 was not sustained this year, with average scores down in all service areas. Relationship management and client service remain, as they have for the last three years, the weakest area. The detailed scores indicate a lack of confidence in the calibre of relationship managers and client service officers in particular.

One respondent says that BNY Mellon "could do a better job at providing a clear, relatable client relationship structure where we know who to call and get what we need, rather than calling in favours from those we know will help us." A second client writes that "some problems have persisted for many years with no resolution," and a third of a "lack of improvements to answer client demand." A fourth respondent, unhappy with the "lack of transparency and accountability on service provided," is demonstrably in search of a senior manager to take responsibility for the quality of the service. True, some clients are happy with the people they deal with at BNY Mellon, and the quality of the service they get. "Some relationship managers have made an effort to understand our business which has been very helpful."

But even after abstracting the scores at both tails of the distribution, it is clear BNY Mellon has under-invested in tri-party of late. This suggest BNY Mellon now needs to invest in the people running and servicing relationships with tri-party counterparties, whether they are collateral takers, or collateral providers, or on both sides of the market. Scoring on relationship management and client service by counterparties that place business with other providers is noticeably weaker than by those familiar with BNY Mellon only. Where the bank retains a certain prowess is in collateral management, where it earns more than respectable scores for valuations, upgrade trades and filtering unwanted forms of collateral. But even in this area, clients are looking for more sophisticated selection and screening processes. The bank has invested in RULE, an automated rule set manager that it is hoping will transform client perceptions of the levels of automation in the implementation of often complicated collateral schedules.

However, a familiar degree of variation at the detailed level is true of product capability, where handsome scores for maintaining a latitudinarian approach to counterparties and collateral types are offset by a failure to translate these successes into a lower cost of finance or a higher yield on assets. In operations and technology—which make up a large part of the case for using a tri-party agent, and where a major global custodian bank might be expected to shine—a similar patchiness is evident. It is clear that BNY Mellon can process and report transactions on time, but stumbles on the less metronomic tasks of managing margin calls and servicing assets posted as collateral. It is a combination that suggests that in Europe the bank will adapt well to the demands of the Securities Financing Transactions Regulation (SFTR), which requires firms to report their securities financing trades to a trade repository. Equally, with the transition to mandatory clearing forcing buy-side firms to post initial margin for the first time, it is clear that BNY Mellon will not struggle to help firms raise cash in the repo market. The concern will be whether the bank is ready for the advent of the long-awaited but now-dawning age of collateral management, in which securities financing is combined with securities lending (on a principal as well as an agency basis) and melded seamlessly with the servicing of the mainly buy-side institutions that regulations now insist must fully collateralise their cleared and non-cleared OTC derivative transactions.

Profile of BNY Mellon	
Average daily value of assets outstanding in tri-party	US$950 billion
Proportion of tri-party client base responding to the survey	9.0%

Profile of perceptions of BNY Mellon clients versus the global averages

Category	2018
Collateral takers	-2.1%
Collateral providers	-27.3%
Both collateral takers and collateral providers	+11.3%
Users accessing counterparties	+5.8%
Users mobilising collateral	-2.4%
Users accessing counterparties and mobilising collateral	-11.5%
Sovereign debt	-7.3%
Convertible debt	-7.0%
Equities	-5.8%
ABS/MBS	-13.0%
Cash	-8.6%
US dollars	-6.5%
Euros	-7.6%
Sterling	-10.5%
Yen	-11.0%
Other currencies	+15.4%

Weighted average scores achieved by BNY Mellon

Category	+/- 2017-2018	2018	2017	2016
Relationship management and client service	-10.0%	5.12	5.69	5.23
Operations, technology and reporting	-7.4%	5.27	5.69	5.37
Collateral management	-3.2%	5.54	5.72	5.42
Product capability	--11.8%	5.08	5.76	5.38
Total	-8.4%	5.24	5.72	5.35

Weighted average scores achieved by BNY Mellon versus the global averages

Category	2018	2017	2016
Relationship management and client service	-10.4%	-0.4%	-9.2%
Operations, technology and reporting	-7.2%	0.5%	-6.6%
Collateral management	-5.2%	3.1%	-3.4%
Product capability	-6.4%	4.9%	-3.7%
Total	-7.3%	2.1%	-5.8%

Clearstream Banking

This marks a sharp recovery from the indifferent outcome of 2017. Average scores are up by nearly a tenth and clear the global benchmark in all service areas. Most importantly, what was least expected of this provider last year—a dip in its reputation for client service—is reversed decisively in 2018, and on a higher turnout by clients.

"A true leader in tri-party relationship management driven by the long-standing and ever-present team," writes one respondent. Another describes Clearstream as "client-centric," and it values a "good partnership" with a tri-party agent that is "pro-active and willing to help find solutions." Others find the client service "great" and "very helpful." But there are also signs that the client service issues evident last year have not disappeared. Detailed scores in more than one service area indicate not every client is convinced that Clearstream handles unusual demands adeptly, suggesting some loss of flexibility, though whether this is due to increased reliance on technology, loss of institutional memory, or a management decision, is not discernible from the data. "Impossible to get hold of" is the ingenuous verdict of one respondent, while a second thinks Clearstream must "train their customer service officers better." The downward pressure on costs throughout the Deutsche Börse group has potential to make the traditional strengths of Clearstream in client service harder to sustain.

Where Clearstream does unequivocally continue to outperform its rivals is in product development. Its clients share the predictable disgruntlement of all users with the difficulty of finding counterparties that like either or both the risk they represent and the assets that they have available for financing, but Clearstream wins plaudits—relatively speaking—for its efforts to cut costs and increase yields by globalising collateral management. A client says that Clearstream "will act not only as a tri-party agent but also in a business facilitation role to try to fulfil each counterpart's specific requirements."

Certainly, the ICSD has understood that it is operating in a radically changed environment from the golden age of tri-party: the decade that elapsed between the Russian crisis of 1998 and the global financial crisis of 2008. Then, the role of a European tri-party agent was largely to put cash-rich European banks at the service of the inflating balance sheets of global investment banks and broker-dealers. Now, prompt access to (increasingly scarce) eligible collateral is the principal guarantee of access to central bank money, economies in capital allocations and to the cash and securities necessary to meet initial and variation margin calls in centrally cleared and non-cleared swap transactions. The consequent operational demands are more intense. Clients need not only to mobilise assets in multiple jurisdictions, but to ensure collateral is properly segregated too. Clearstream has run experiments to test whether a tokenised collateral mobilisation service built on distributed ledger technology can further broaden access to eligible collateral across borders, and determine what contribution the new technology can make to lowering the costs of collateral transformation trades. It has created a new legal master agreement for tri-party transactions as part of its efforts to attract more buy-side firms to the market. It is this appetite for experimentation and adaptation that prompts one happy client to describe Clearstream Banking as a "close partner that always understands the evolving market and our specific financing needs."

Profile of Clearstream Banking	
Average daily value of assets outstanding in tri-party	US$540 billion
Proportion of tri-party client base responding to the survey	4.5%

Profile of perceptions of Clearstream Banking clients versus the global averages

Category	2018
Collateral takers	+0.2%
Collateral providers	+5.7%
Both collateral takers and collateral providers	+1.4%
Users accessing counterparties	-4.6%
Users mobilising collateral	-0.1%
Users accessing counterparties and mobilising collateral	+2.7%
Sovereign debt	+0.9%
Convertible debt	+0.5%
Equities	+2.9%
ABS/MBS	+0.1%
Cash	+2.9%
US dollars	+2.2%
Euros	+1.3%
Sterling	+3.0%
Yen	+2.9%
Other currencies	n/a

Weighted average scores achieved by Clearstream Banking

Category	+/- 2017-2018	2018	2017	2016
Relationship management and client service	9.9%	5.84	5.31	5.95
Operations, technology and reporting	8.4%	5.69	5.25	5.94
Collateral management	13.6%	5.85	5.15	5.76
Product capability	5.9%	5.53	5.22	5.76
Total	9.4%	5.72	5.23	5.85

Weighted average scores achieved by Clearstream Banking versus the global averages

Category	2018	2017	2016
Relationship management and client service	2.1%	-7.0%	3.3%
Operations, technology and reporting	0.2%	-7.2%	3.3%
Collateral management	0.2%	-7.2%	2.7%
Product capability	1.9%	-4.9%	3.1%
Total	1.1%	-6.7%	3.1%

Euroclear

The improvement evident to Euroclear clients in each of the last two years has continued into 2018. Average scores are up in all service areas, with collateral management rising sharply enough to push the outcome towards perfection. "We have worked for the last three years on strategic transactions involving complex collateral movements, and we could not be more pleased with the service, [the] deep technical understanding of our needs and the responsiveness to our inquiries throughout all of our interactions," writes one investment banker.

Another applauds Euroclear for being "very service oriented" and accomplishing a "smooth implementation of new initial margin requirements." There is also praise for "excellent product knowledge" and a "solutions provider." But it is relationship management and client service that has exhibited the most consistent scoring in recent years. "Excellent service," writes a client. "Customer service personnel are always proactive in any situation and will manage the issue to resolution with quick updates."

These are impressive testimonials, not only because client service was historically less than stellar at Euroclear, but because the international central securities depository (ICSD) has sustained the improvement in a period of change. Euroclear is expanding from its traditional clientele in banking, investment banking and central banking into corporate treasury, asset management and end-investing. "Euroclear provide a very good service and understand our business needs," writes a client. Another name-checks his relationship manager as someone who is "excellent, gives quick feedback and does his best for us." Of course, not everyone is convinced. "Poor client service," writes one respondent. "Lack of drive and accountability, especially relationship manager." Another otherwise happy client says simply "lacking in RM."

With the rapid expansion of tri-party services to non-traditional client types, especially the buy-side and their custodian banks, a hard-won reputation for service will not be easy to defend, though a new "collateral portfolio" service is promised for this purpose. The operational difficulty of on-boarding clients efficiently is already creating challenges. "On-boarding process" is what one respondent does not enjoy. "Deal-blocking forms are changing every day, and we have to fill them several times without support." Another respondent says, "Setting up new agreements is a very time-consuming process."

Scores indicate that the ICSD, like its competitors, does less well only when dealing with the unusual or the exceptional. These are precisely the sorts of manual task that Euroclear EasyWay—the new, customisable, dashboard-based information platform—will struggle to eliminate by automation and better online presentation alone. "Great team sometimes frustrated by the technology they have to work with," is the verdict of one client. A second adds that "collateral instructions [are] complicated due to regular connectivity issues (card reader, etc.)." But Euroclear cannot justly be accused of stinting on investment in tri-party. It has already digitised tri-party contracts and collateral profiles; it is now implementing a service (DualSourcing) to offer clients a choice of commercial or central bank money and piloting a new Collateral SelfSelect service that will enable clients to direct their own collateral optimisation strategy. Nor can Euroclear be criticised for resisting alteration of the wider markets for collateral, or even for just sticking to its core responsibilities of widening access to cash and securities.

Profile of Euroclear

Average daily value of assets outstanding in tri-party	US$1.035 trillion
Proportion of tri-party client base responding to the survey	3.7%

Profile of perceptions of Euroclear clients versus the global averages

Category	2018
Collateral takers	+3.2%
Collateral providers	-4.5%
Both collateral takers and collateral providers	+5.7%
Users accessing counterparties	+14.1%
Users mobilising collateral	+4.2%
Users accessing counterparties and mobilising collateral	+4.6%
Sovereign debt	+6.0%
Convertible debt	+5.5%
Equities	+6.6%
ABS/MBS	+1.9%
Cash	+3.1%
US dollars	+6.1%
Euros	+5.8%
Sterling	+7.2%
Yen	+3.4%
Other currencies	n/a

Weighted average scores achieved by Euroclear

Category	+/- 2017-2018	2018	2017	2016
Relationship management and client service	+ 0.33%	6.02	6.00	5.94
Operations, technology and reporting	+0.84%	5.97	5.92	5.81
Collateral management	+7.27%	6.20	5.78	5.71
Product capability	+0.18%	5.71	5.70	5.75
Total	+2.05%	5.97	5.85	5.80

Weighted average scores achieved by Euroclear versus the global averages

Category	2018	2017	2016
Relationship management and client service	5.2%	5.1%	3.2%
Operations, technology and reporting	5.3%	4.6%	1.0%
Collateral management	6.1%	4.1%	1.8%
Product capability	5.3%	3.8%	2.9%
Total	5.4%	5.1%	3.2%

SIX Securities Services

The collective verdict of a small number of respondents is among the best in the survey. This is especially true of relationship management and client service, where only exception-handling attracts an average score that is less than excellent. The one client to have composed a written comment has not noticed even that. "Very helpful, fast response time and very good service in dealing with exceptions," he concludes. The noticeable exception, in a set of scores otherwise improved on last year, is product capability. Here, predictable shortcomings in the reach of SIX across geographies and asset classes are the source of the under-performance. This finding is mitigated by the one service area that has improved more than any other: collateral management. As it happens, this likely reflects the growing maturity of the CO:RE multi-lateral multi-currency repo trading facility and collateral management platform unveiled by SIX two years ago. If it evolves as far as its potential permits, CO:RE will become a genuinely global repo trading platform that integrates price discovery, mobilisation of assets of any type or currency in any location and access to a sufficiently wide range of counterparties on standardised contracts to ensure clients have ready access to low-cost finance on a continuous basis.

The scores suggest clients are now discovering value in tools to monitor haircuts, create baskets of securities, initiate trades only after automated checks confirm eligible collateral or cash is in place and obtain up-to-date valuations through the trading day. But the principal challenge is to turn multi-currency capabilities into a genuinely global service that touches counterparties and asset classes everywhere. At the moment SIX is recording its least impressive scores in counterparty access and asset class acceptance. However, the organisation is enjoying some success in equity repo, where the shift from a primarily bi-lateral market to online trading is creating opportunities. Last summer, European equity index baskets and US equities were added to CO:RE, whose pricing of Swiss, German, Spanish, French and British equities is at the heart of the SIX strategy to enhance the attractiveness of the Swiss securities financing market.

Tri-party is well-adapted to equity repo, because it offers a simpler, cheaper and less risky option than financing equities via a central counterparty clearing house (CCP), which offers netting but also mutualises risk and insists on contributions to guarantee funds. Encouragingly for SIX, recognition of the high levels of operational support and automated processing it achieves—vital to expanding usage of a less predictable asset class such as equity—is as strong this year as last. More than half the respondents give SIX a perfect score for straight-through-processing. But success in equity repo, as for success in collateral management generally, demands users. SIX says its tri-party offering is used by banks based in Austria, Germany, the United Kingdom, Sweden, Denmark, Liechtenstein, the Netherlands, Luxembourg and France as well. However, the vast majority of respondents to the survey this year are domestic Swiss financial institutions. Intriguingly, SIX is testing the viability of distributed ledger technology (DLT) to expand its reach in the repo market. The organisation was among the first to show an interest in DLT, having unveiled DLT-based prototypes for corporate actions and bond issuance. Now it is working with Digital Asset Holdings to create a prototype whose principal aim is to optimise the mobilisation and deployment of collateral, but SIX says a DLT platform might also make it quicker and easier to on-board users of CO:RE.

Profile of SIX Securities Services

Average daily value of assets outstanding in tri-party	Not published
Proportion of tri-party client base responding to the survey	7.5%

Profile of perceptions of SIX Securities Services clients versus the global averages

Category	2018
Collateral takers	+6.9%
Collateral providers	n/a
Both collateral takers and collateral providers	-3.5%
Users accessing counterparties	n/a
Users mobilising collateral	+10.5%
Users accessing counterparties and mobilising collateral	-4.0%
Sovereign debt	-2.2%
Convertible debt	-0.6%
Equities	-0.5%
ABS/MBS	+0.2%
Cash	-3.3%
US dollars	-4.2%
Euros	-2.1%
Sterling	-5.4%
Yen	-7.2%
Other currencies	-4.4%

Weighted average scores achieved by SIX Securities Services

Category	+/- 2017-2018	2018	2017	2016
Relationship management and client service	-1.00%	5.96	6.02	5.79
Operations, technology and reporting	+1.56%	5.85	5.76	5.83
Collateral management	+8.55%	5.84	5.38	5.56
Product capability	-3.50%	4.96	5.14	5.40
Total	+1.52%	5.66	5.58	5.65

Weighted average scores achieved by SIX Securities Services versus the global averages

Category	2018	2017	2016
Relationship management and client service	4.2%	5.4%	0.6%
Operations, technology and reporting	3.0%	1.8%	1.4%
Collateral management	-0.1%	-3.1%	-0.9%
Product capability	-8.4%	-6.4%	-3.4%
Total	-0.1%	-0.4%	-0.6%