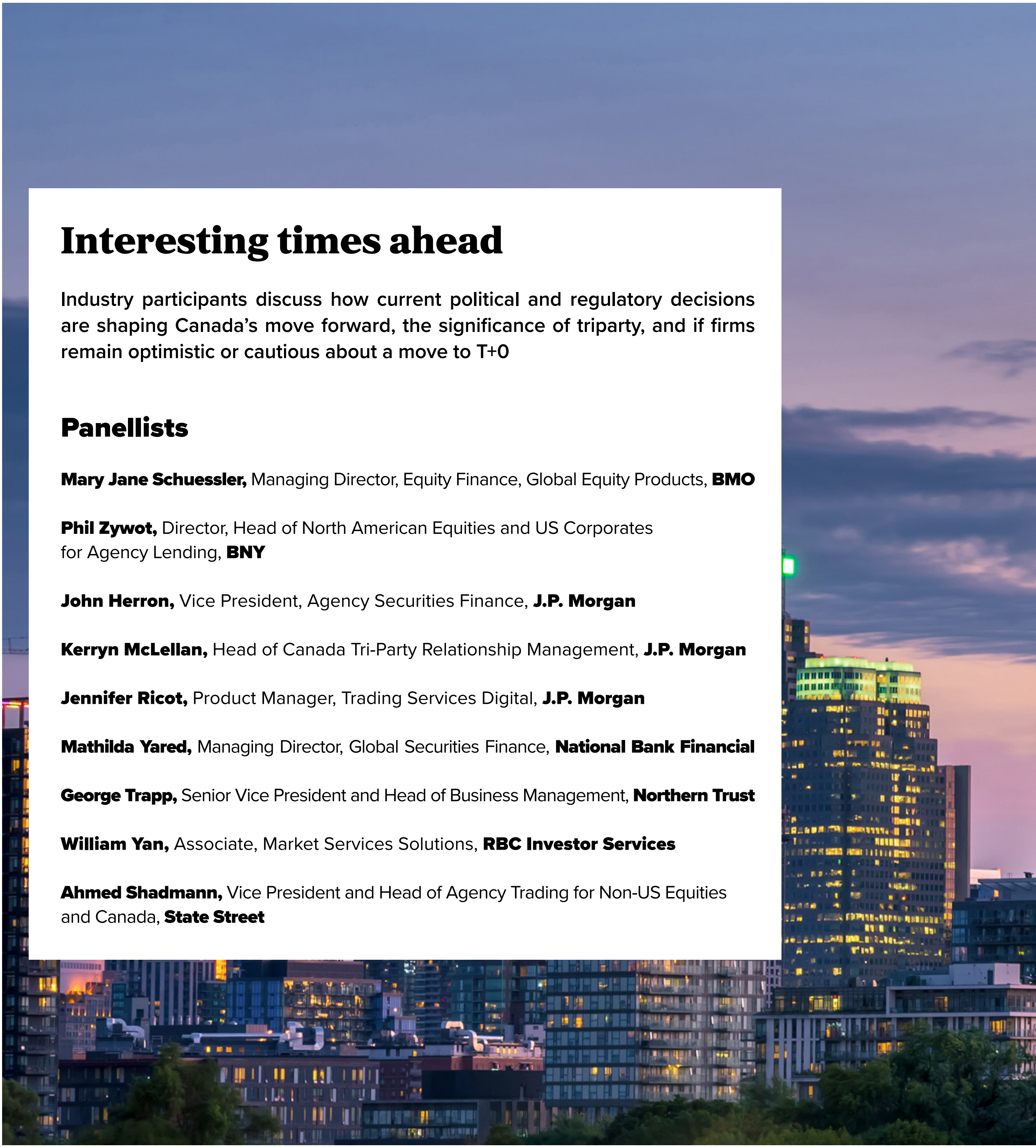


Interesting times ahead

Industry participants discuss how current political and regulatory decisions are shaping Canada's move forward, the significance of triparty, and if firms remain optimistic or cautious about a move to T+0

Panellists

Mary Jane Schuessler, Managing Director, Equity Finance, Global Equity Products, **BMO**

Phil Zywot, Director, Head of North American Equities and US Corporates for Agency Lending, **BNY**

John Herron, Vice President, Agency Securities Finance, **J.P. Morgan**

Kerryn McLellan, Head of Canada Tri-Party Relationship Management, **J.P. Morgan**

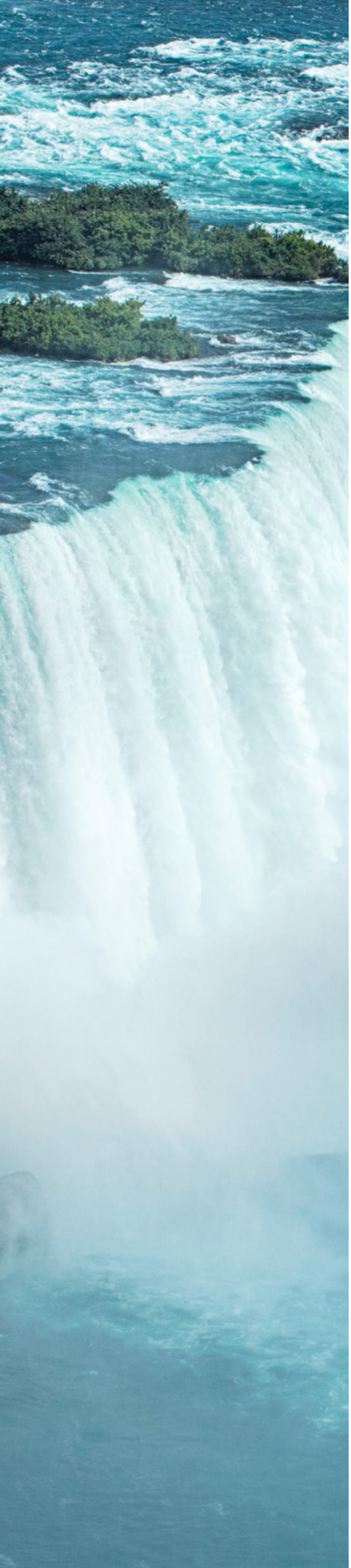
Jennifer Ricot, Product Manager, Trading Services Digital, **J.P. Morgan**

Mathilda Yared, Managing Director, Global Securities Finance, **National Bank Financial**

George Trapp, Senior Vice President and Head of Business Management, **Northern Trust**

William Yan, Associate, Market Services Solutions, **RBC Investor Services**

Ahmed Shadmann, Vice President and Head of Agency Trading for Non-US Equities and Canada, **State Street**



How do you assess the performance of the Canadian securities finance market over the past 12 months?

Mathilda Yared: The Canadian securities finance market has been relatively quiet over the past 12 months, with a notable decrease in revenues year-over-year (YoY). This downward trend, also observed in the US market, resulted from lower fees and reduced lending activity across various asset classes. In the general collateral space, balances shifted to lenders that could support wide collateral schedules, focusing on trade stability, automation of execution, and ease of settlement. Liquidity and maintaining tight capital requirements were prevalent themes as well.

Overall, retail clients and hedge funds' demand was weaker YoY, resulting in decreased loan balances, utilisation, and revenues. In the warm and hard-to-borrow space, we saw some bought deals and corporate action names, but most of the specials were sub-CA$5 names. Generally, we observed an increase in short interest for Canadian ETFs as market volatility resulted in some ETFs moving into the special space, especially those that are harder to create. Specials, overall, came from demand for cryptocurrency, lithium mining, and electric vehicle-related securities, but few persisted as long investors squeezed out shorts. In the dividend space, one notable change was the discontinuation by Canadian banks of the discount previously afforded to their stocks in the dividend reinvestment space.

Finally, while National Bank of Canada was the first to offer it, more institutions are now active in fully paid lending in Canada. This is making it easier to short sub-CA$3 names as there is more supply and levels do not rise as steeply as they would have in the past.

Phil Zywot: The securities finance market showed resilience in 2024 despite several changes. The shift from T+2 to T+1 settlement cycle went smoothly. Cash reinvestment spreads exceeded expectations due to the interest rate easing cycle, which offset the Bankers' Acceptances (BA) cessation in June 2024. Balances were pressured by counterparties' capital constraints, but there was strong demand for equity financing, upgrade trades, and collateral diversification.

In the banking sector, regulators raised the Domestic Stability Buffer (DSB) in 2023, and Canadian banks made several acquisitions resulting in most introducing discounted Dividend Reinvestment Plans (DRIPs). As these acquisitions were completed and banks shored up capital requirements, banks discontinued their discounted DRIPs, reducing lending revenues for agent lenders in Canada. The market has recently faced global volatility due to trade wars, leading to a reduction in equity financing trades.

William Yan: The market has demonstrated remarkable resilience over the past 12 months, maintaining a steady course amid turbulent global conditions. Despite well-known macroeconomic headwinds — trade tensions, geopolitical instability, and a shifting interest rate environment — the market has remained relatively stable.

Equity lending activity held firm in Q1 2025, demonstrating YoY stability despite a 28 per cent drop in specials revenue, according to S&P Global Market Intelligence. Notably, lending demand remains concentrated in the energy, materials and healthcare sectors, where elevated lending fees reflect persistent borrower interest. That said, equity issuance has encountered some headwinds, contributing to a cautious but active lending environment. On the fixed income side, the Canadian market has proven particularly resilient; the Bank of Canada’s pivot toward rate cuts supported increased sell side demand, particularly in benchmark Government of Canada bonds and on the front-end-of-the-curve. A reduced central bank balance sheet has prompted counterparties to explore alternative funding strategies, contributing to steady term lending across collateral types, especially for lenders offering flexibility on collateral schedules.

At the same time, beneficial owners are cautious and pragmatic, balancing risk and reward while adapting their programmes to the fast-changing landscape. Those optimising their portfolios and embracing timely market insights are positioned to capitalise on further risk-adjusted returns.

George Trapp: Northern Trust saw overall borrower demand continue to be strong for the past 12 months. Only in the last quarter, specifically with the geopolitical environment injecting volatility, did we see demand wane for general collateral (GC) — those securities that have the least amount of demand and are typically used for financing. Demand from borrowers continues for specials and Canadian DRIP trading, and our clients that hold these Canadian assets continue to benefit.

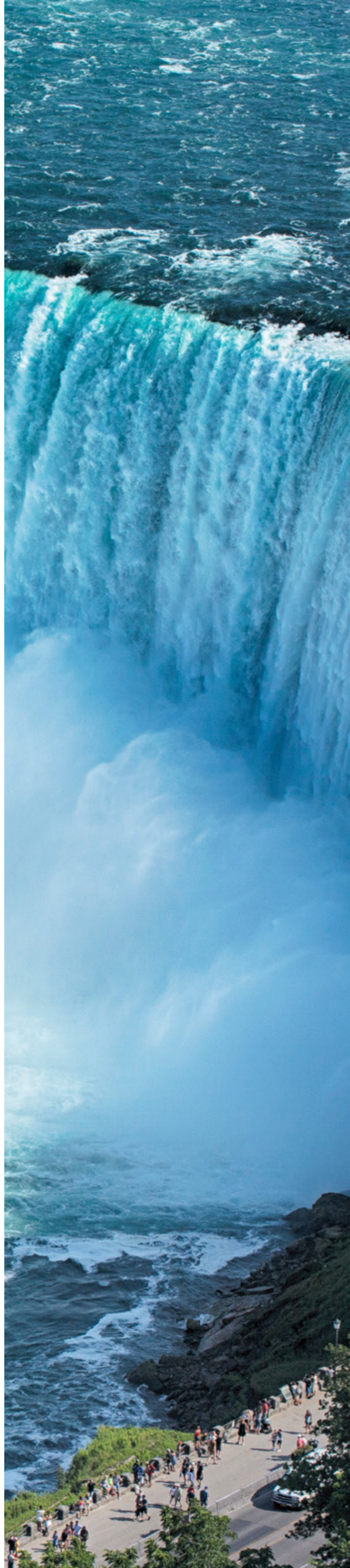
Canadian government, provincial and corporate bond demand was spread across both the open and term loan space. We saw demand in various tenors for these trade types, but did see a bias towards shorter term evergreen structures as borrowers continued to seek more efficient means to manage their balance sheets and long inventory. High-quality liquid asset (HQLA) collateral upgrade trades continued to be a key component driving revenue in 2024 as financial institutions looked to optimise their balance sheets by pledging a wider array of non-cash collateral including equities, corporate and convertible bonds. Additionally, there was strong demand centred around the Canadian government bond benchmark issues.

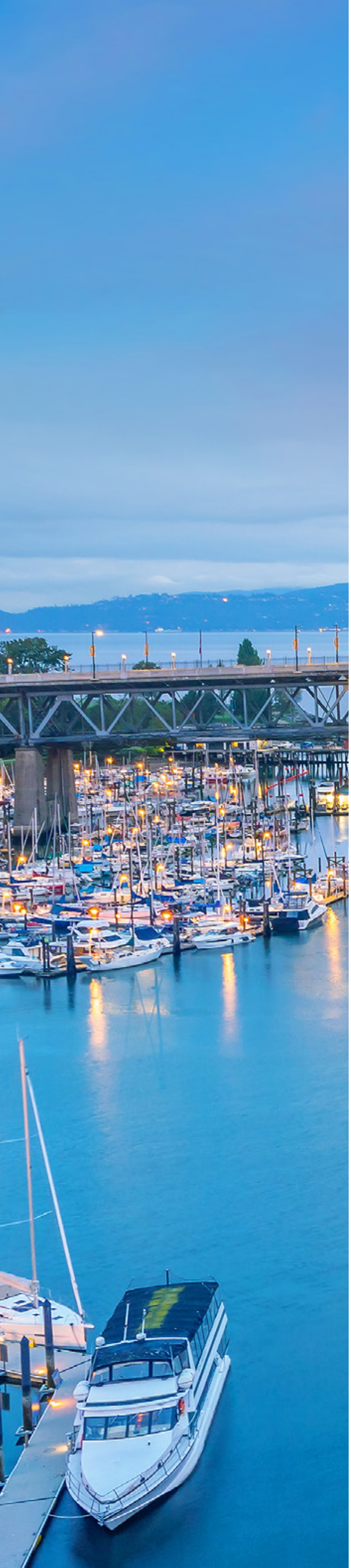
A significant amount of revenue generated from Canadian equities was driven primarily off the back of specials and DRIP trades. Clients with holdings in Canadian dollar-DRIP names saw healthy utilisation and positive returns in 2024. The DRIP trade continues to yield attractive returns as demand remains strong with borrowers looking to participate and compete for supply.

The Canadian equity specials market did experience a slight increase in average fees over the previous year as several equities continued to generate demand among the borrower community and produced significant gains overall. Since mergers and acquisition activity has been lackluster, Canadian equity specials demand was largely driven by individual directional issues. The specials tend to be very name specific and associated with industries where there has been volatility in underlying share prices. The specialty healthcare, pharmaceuticals and raw materials or mining sectors were prominent in driving revenue in Canada's securities lending markets. In addition, we experienced sustained borrower activity across the energy sector as demand rose with increased volatility in the oil markets and higher financing costs.

John Herron: Canadian securities lending demand has been robust over the past 12 months for general collateral and hard-to-borrow trades. We are observing widespread interest from all of our broker-dealers. The borrowing community requires a diverse Canadian asset pool to cover all of their needs. The industry is closely monitoring changes in tariff policies.

Collateral flexibility remains a crucial factor in achieving utilisation, as borrowers' collateral needs can vary over time. Common borrowing demand themes include various risk-weighted asset (RWA) types, collateral types, and offer rates. The main equity sectors of interest are





cannabis, financial (including bitcoin-related companies), and industrial/mining. Automation capabilities are pivotal, as borrowers seek to quickly execute trades. Especially in the new T+1 environment, the business has made significant strides in terms of efficiency and the speed at which trades are completed and shifted from one source to another. Ease of settlement is also critical, and the industry is constantly seeking new ways to improve the Canadian settlement processes.

Ahmed Shadmann: In 2024, the Canadian lending market faced several challenges in the specials segment of the book but was bolstered by dividend trades. It is a similar story on a global basis as well, with 2024 global securities lending revenue down 10 per cent YoY. In the Canadian market, industry equity revenue dropped 2.2 per cent YoY and fixed income revenue decreased 15.3 per cent over the same period, per DataLend. A myriad of reasons contributed to this shortfall.

In the beginning of the year, the Canadian government repealed a long-standing tax incentive for Canadian investors called the 'dividend received deduction' which allowed Canadian banks — and other Canadian institutional investors — exemption from tax on dividends issued by Canadian companies. For the lending programme, this impacted term trades which were unwound over the course of the year.

The specials environment was muted with sporadic resurgence of demand for names in the cannabis and electronic vehicle (EV) sector. The mining sector directly related to EV, such as lithium mining, saw names elevate to the 'specials' category but that quickly fizzled as long investors squeezed out shorts. The high interest rate environment saw demand pick up for REIT names, particularly names with a high debt load. However, that too fizzled out by mid-year as the central bank commenced its rate-cut cycle. The latter part of the year was mostly quiet in the specials segment as markets rallied and shorts were mainly forced to unwind trades.

The first four months of 2025 can be best termed as tumultuous to jittery, the uncertainty and confusion around global trade caused by US tariffs saw wild market swings. Bond yields plummeted, stock prices nose-dived and short investors went on a holding pattern to wait and see where the dust settles. Justified, given positional and directional uncertainty caused by market noise and headlines by just one man.

With Canada recently exploring the triparty space, how do you view the country's post-trade infrastructure as it relates to collateral and triparty?

Zywot: On the agency lending side, triparty has been well established for several years in Canada and is regularly used by both agent lenders and borrowers to manage equity collateral positions and requirements. Having said that, Canada still processes the majority of fixed income collateral movements bilaterally. Connectivity and efficiencies across triparty platforms, vendors, agent lenders, borrowers, and the Canadian Depository for Securities (CDS) has room for improvement. In this space, Canada has lagged its global peers as the country, at times, can be slower to adopt change.

Recently, we have seen important improvements to the triparty repo infrastructure through the TMX to connect cash and collateral providers for more liquid markets. We hope to see efficiencies in current fixed income repo trading processes and automation which should allow for expanded collateral trade types and structures.

Mary Jane Schuessler: Canada and specifically the TMX have recognised the need for operational efficiency, enhanced liquidity, risk mitigation within the securities finance landscape and have made significant improvements recently in moving the Canadian marketplace forward. The market in general is still behind as it relates to collateral and triparty, however, the building blocks are there and Canadian market participants are keen to advance to a more global standard and are actively working to do so.

Yared: Canada's post-trade infrastructure benefits from its single-depository setup. Unlike Europe, which has multiple international central securities depositories (ICSDs) and CSDs, and the US, which has the Federal Reserve System and Depository Trust Company settlement, all securities in Canada are CDS settled with the potential for Canadian Derivatives Clearing Corporation or Continuous Net Settlement clearing.

The Canadian Collateral Management Service (CCMS) will strengthen the Canadian ecosystem and its resilience by simplifying the end-to-end domestic collateral management process. The Bank of Canada's decision to use CCMS supports this view. It is important to note that large Canadian institutions have been using internationally established triparty platforms for cross-border transactions and bilateral settlement for domestic transactions.

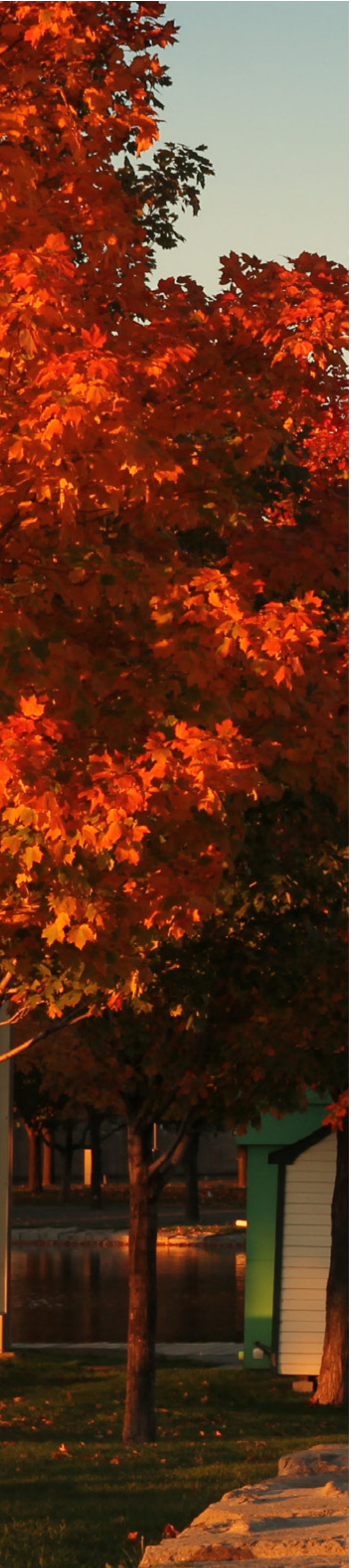
Although the process has been functioning well, it excluded smaller institutions from entering the collateral market given the complexity of operations involved. We believe that the upcoming Canadian triparty may introduce new participants into the collateral market.

Kerryn McLellan: The Canadian market's triparty space, while flourishing with recent development, has its roots tied back to 2007 with the introduction of a non-cash securities lending escrow supporting a major Canadian bank's agency lending desk. Since then, triparty services have dramatically expanded in support of securities finance, Uncleared Margin Rules (UMR) and even the first Canadian dollar repo transactions.

This growth highlights the dynamic evolution of Canada's post-trade infrastructure, powered by a robust network of firms, vendors, triparty agents, and local market CCPs and depositories. Each plays a vital role in optimising collateral management and boosting operational efficiency as markets evolve and capital-efficient structures become crucial. Firms are advancing their operational processes and systems, vendors are nearing comprehensive optimisation solutions, and triparty agents are broadening their support to include diverse trade types and legal structures. Meanwhile, Canadian market infrastructure is advancing technologically.

We are thrilled to provide tailored triparty services designed to meet regional needs, particularly in accessing supply and liquidity that are often challenging due to legal, operational, and regulatory barriers. By leveraging innovative legal constructs and operating models within traditional market infrastructure (e.g. triparty), we enable firms to effectively deploy previously trapped assets, enhancing market fluidity and efficiency. Canada is well-positioned to navigate the complexities of the modern financial landscape, fostering long-term success and innovation.

Shadmann: Canadian securities lending trades collateralised through a triparty agent is not a new phenomenon. We have been active participants for multiple years with multiple counterparties using third party triparty agents. What is different about the CCMS by TMX and Clearstream is the depth of integration it enjoys with the CDS. This integration does allow fixed income/repo desks better ability to more efficiently manage non-cash collateral and therefore limit operational burdens. This perhaps is its greatest strength. It now



remains to be seen how many market participants see this as a big enough benefit and actively trade through this new venue.

It is also interesting to note that NI 81-102 does restrict all mutual funds in Canada from participating in triparty collateral solutions. If regulators provide relief that could materially increase participation of triparty collateral.

Almost a year on from the implementation of T+1, what aspects (pre and post-transition) surprised you the most? Looking forward, what, if any, is Canada's approach to T+0?

Shadmann: The Canadian market moved from a T+2 settlement cycle to T+1 along with the US, Mexico, and Argentina. Market participants were well prepared for this change with substantial investment in process automation and work force preparation. The change to T+1 settlement did not see any material market disruption and perhaps that is what was the most surprising aspect of the changeover.

Looking ahead to T+0, we have a model that can be followed in the shape of the US fixed income space where the lending space already operates in a T+0 timeline. Takeaways and learnings from that space would be market and client discipline. Sell fails can be avoided with timely notices being sent by clients and automation of recalls and returns between lenders and borrowers. The T+1 already resulted in investment into this automation in the equity space. The fixed income space within Canada now needs to follow the same path.

From a client perspective, the transition to T+1 has been as smooth as it could have been. The most surprising aspect was how truly smooth the transition went for clients and client portfolios. Clients had many questions about the transition and how things went, but for the most part there was no visible impact to the management of their programmes and everyone has settled and gotten comfortable with the new regime. T+0 on the other hand, clients are much more wary about as they worry about many of the same questions with T+1 but on an even shorter time scale.

Yared: What surprised us — and many others — was how smooth the transition was at the industry level, barring some small hiccups. The fear of increased fails did not materialise, and no significant changes in the industry's post-trade metrics were observed in Canada. Looking forward, we believe that capitalising on the push for automation, infrastructure, and technological innovation will ensure that market participants are better positioned for a potential T+0. It is important to keep in mind, however, that whereas past transitions were an evolution of industry practices, moving to T+0 would imply a more fundamental transformation in products and processes across the trade lifecycle that requires, in our opinion, an extensive risk and cost-benefit analysis.

Schuessler: Implementation for T+1 was very impressive as it relates to the securities finance industry, there was a vast amount of preparation, analytics, and additional automation explored from almost all participating firms. There were several working groups coordinating road blocks, addressing open questions with respect to timelines and automation tools which enabled a very smooth transition to T+1. Canada's approach to T+0 is cautious, moving to T+0 would require substantial technological advancements, increased automation, investments, and likely a change to depository cut-offs.

Yan: The transition to T+1 settlement in Canada was notably smooth thanks to extensive industry collaboration and preparation led by the Canadian Capital Markets Association and its cross-border partners. One notable aspect was the rapid adoption of automated operational processes across the value chain, which helped to minimise disruptions and maintain market integrity. Beneficial owners appreciated the enhanced efficiency, though some required adjustments to their internal workflows and behaviour to meet the accelerated timelines.

Looking ahead, global partners in the UK, the EU, and Switzerland are taking the lessons learned as they tackle their October 2027 timeline. While T+0 settlement in Canada presents an opportunity to further reduce settlement risk, it also poses challenges such as the need for more real-time processing capabilities, enhanced liquidity and improved recall management. As these tests lie in the foreground, efforts continue to further perfect our current T+1 capabilities.

Zywot: The key to T+1 was recognising the potential issue early and addressing it promptly. This allowed us to form project teams and secure necessary funding. At BNY, we invested heavily in technology, sought automated and efficient solutions, and collaborated with vendors to ensure readiness for the T+1 transition.

Canada was well positioned for the move to T+1 as the industry prepared for the move well in advance through the development of a working group by the Canadian Securities Lending Association (CASLA) which worked with other industry groups (RMA/ISLA Americas, SIFMA) to help align North America. Many agent lenders automated recalls or used third-party vendors for recall automation and connectivity. Industry working groups, technological changes, automation, and improved efficiencies turned T+1 into a non-event with no noticeable increase in fails. Initially, we had seen a mismatch in auction settlement and maturity which led to higher-than-expected volatility in funding markets as reflected in elevated CORRA levels. This helped cushion the front-end supply shock of BA cessation.

Looking ahead, with current market technology, Canada would have to move to a pre-sale notification model to reduce fails in a T+0 environment which would require technological enhancements across the industry, potential reduction in liquidity and result in overall market inefficiencies. It would most likely require the move to a DLT model to efficiently handle the move to a T+0 environment.

Trapp: The most surprising aspect was that the change went absolutely seamlessly. Pat on our own backs for the amount of preparation that went into the effort. We are also pleased with the increasing number of borrowers that have signed up with vendors to automate the recall process.

Which regulatory initiatives will consume most attention for your teams over the coming 12 months?

Yan: Securities lending, like other aspects of asset management and capital markets, remains subject to increasing regulatory changes, while its importance as a source of return and liquidity for beneficial owners continues to increase. As regulatory complexities increase, it is increasingly clear that service providers play an important role in being able to manage such complexities in a more cost-effective way, controlling such risks.

The Government of Canada Market Functioning Steering Group (GMF), under the auspices of the Canadian Fixed Income Forum (CFIF), in 2024 published its final framework on a mandatory fail fee for late settlement involving Government of Canada bonds and T-Bills. With the CDS Post-Trade Modernization (PTM) project now live, the trial period (CDS to calculate cash penalties and share those details with market participants) is expected

to commence. The aim is to improve overall market efficiency, so market participants must practice heightened diligence to ensure timely settlement. Simultaneously, we continue to monitor the Securities and Exchange Commission (SEC) Rule 10c-1a developments, explore technical options and understand the scope to ensure an effective implementation. Beneficial owners are interested in how these developments will impact their lending programmes, particularly concerning data reporting and compliance requirements.

Trapp: Similar to recent years, regulation has continued to shape the wider industry with the new US administration expected to ease the regulatory burden on banks. This could lead to some dislocation versus international peers, potentially disadvantageous to non-US banks. Most of the focus remains on the Basel III Endgame, and at time of writing, it is unclear if the Trump administration will alter the Basel rules or even mark the “Endgame for Endgame”.

While delayed for 12 months, the SEC’s mandatory clearing rules require significant attention and staffing resources. Securities lending transactions are out of scope, though cash reinvestment desks partaking in repo transactions will need to ensure full documentation is in place for compliance in June 2027.

Lastly, settlement efficiency remains a key theme after Canada and the US successfully adopted the move to an accelerated T+1 settlement cycle in May 2024. In contrast with prior concerns around settlement discipline, the relatively smooth North American process paves the way for other markets to adopt the same measures, with Europe and the UK expected to transition in October 2027, benefitting from 'second mover advantage'.

Shadmann: The Bank of Canada’s proposed penalties regime’s implementation of a fee for failing to settle Government of Canada bond and T-bill trades will be a focus of ours. This initiative, once mature, will be a positive evolution in the Canadian fixed income market through the introduction of an incentive that will effectively decrease the number of fails and therefore increase the efficiency of the overall market.

Another regulatory initiative that will consume a lot of our attention is the SEC Rule 10c-1a. This rule is intended to enhance transparency of the securities lending market, which should bring confidence to a wide swath of participants in the market and encourage participation in the lending space. The end result is hoped to be a more liquid market.

Finally, the Canadian Investment Regulatory Organization (CIRO) has issued proposed amendments regarding mandatory close-out requirements. As per the proposal mandatory close-outs (i.e. automatic buy-in) would be triggered when there is a prolonged settlement failure. The proposed requirements would mean that investment dealers, that are members of the clearing agency, would be required to close the fail-to-deliver position by buying or borrowing shares within specific timelines, or else they would become subject to pre-borrow requirements. This amendment is currently in the public and market participant commentary phase.

Zywot: Regulatory demands on the securities finance industry have continued to impact our industry. Requirements such as RWA, comprehensive capital analysis and review (CCAR), liquidity coverage ratio (LCR) and single counterparty credit limit (SCCL) have defined the management and ability to grow a securities finance business. These will continue to be a large focus going forward and so will the strategies, trade structures and alternative routes to market.

In Canada, the industry has been recently focused on the CIRO proposal for mandatory close-out requirements, like Reg SHO in the US. The goal is to address short sale fails and to align the North American markets in this aspect. Although the Canadian and US markets are closely intertwined, there are differences between the two in which full alignment for mandatory close-outs may not necessarily achieve the desired efficiencies and could create unnecessary costs.

Yared: On the Canadian side, the CIRO requested comments on the proposed mandatory close-out rule earlier this year, and we are keeping a close eye on next steps. On the US side, although the SEC has delayed the implementation of the Treasury clearing rule requiring the clearing of eligible cash transactions and repo transactions by 12 months, preparedness will continue to be in focus in the coming year.

Last but not least is 10c-1a for reporting of securities lending transactions. Earlier this year, the Financial Industry Regulatory Authority (FINRA) asked the SEC to extend the 10c-1a compliance date and consider certain simplifications to the rule, with industry groups recommending 28 September 2026, as a new potential compliance date. Since then, and as a result of the White House's executive order on deregulation, industry groups have recommended rescinding the SEC 10c-1a rule.

On 29 April, FINRA published a letter to the SEC requesting an extension "such that covered persons would be required to report Rule 10c-1a information September 28, 2026". No official changes to the 10c-1a rule or its compliance date have been published by the SEC at this time, so this remains a regulatory initiative that will consume most attention for our teams over the coming 12 months.

How is the incorporation and development of new technology, such as DLT and AI, as well as standardisation and digitisation in Canada pushing the securities finance market forward?

Jennifer Ricot: There are various challenges within the securities finance market that new technologies like distributed ledger technology (DLT) has the potential to address. Traditional settlement processes, which can take days and are subject to settlement fails because each counterparty is maintaining separate reference data, could be revolutionised by DLT.

This technology enables near-instantaneous settlements with a reduced risk of failure, as all parties use a shared ledger as their single source of truth. Such advancements could facilitate the market's transition from T+1 to T+0 settlement times. Additionally, DLT allows for 24/7 movement of tokenised assets, overcoming the constraints of market operating hours and enabling simultaneous settlement of transaction legs. This reduces exposure and offers capital benefits, as demonstrated by HQLA^{X}'s achievement of surpassing the €1 billion notional milestone in delivery-versus-delivery (DvD) securities lending using DLT.

Moreover, DLT's capability for simultaneous settlement is transforming repo transactions, which are now being executed intraday in seconds on platforms like J.P. Morgan's Digital Financing and Broadridge's Distributed Ledger Repo. Traditionally, repo transactions occur overnight or on a term basis, limiting access to cash and increasing reliance on credit lines. DLT facilitates intraday liquidity access, allowing firms to optimise capital use and enhance their financial flexibility.

McLellan: The global securities finance market is undergoing a transformative shift,

fueled by technological advancements. This evolution involves not only the introduction of new technologies like DLT and AI but also innovative applications of existing technologies. As AI becomes more prevalent, it will further revolutionise collateral optimisation by enhancing decision-making and predictive analytics, streamlining operations, and reducing errors.

The integration of AI will boost efficiency and transparency, and aid scalability by handling large data volumes and complex calculations. Integrated AI will help empower dealers to optimise allocations within triparty systems, thereby enhancing their capital efficiency and asset utilisation across the street. For instance, by leveraging AI, market participants can efficiently analyse extensive data sets related to their activities with counterparties, enabling them to identify market gaps and advantageous opportunities. While, yes, this can be done by humans, the use of AI can expedite the findings almost instantaneously and potentially with enhanced precision.

Equally important is the creative use of existing technology for progress. For instance, J.P. Morgan's CCP Margin Exchange (CCPMx) expands connectivity across central counterparties (CCPs) and collateral markets by combining triparty optimisation with bilateral collateral delivery, offering substantial operational efficiencies and economic benefits to clearing members. This model simplifies the delivery and return of CCP-related collateral, including intraday recalls and substitutions, by replacing cash margins with more optimal securities. Additionally, the smart use of APIs for real-time reporting reduces friction in collateral optimisation, ensuring seamless integration and data accuracy across platforms. These advancements are not just technological; they are about creating a more interconnected and efficient financial landscape.

Yared: Securities finance at its core relies on contracts that are replicated inefficiently across various systems such as trading books, depository, and custody accounts. This setup causes friction in settlement and requires cumbersome, error-prone reconciliations.

DLT offers a solution for this: a distributed, real-time shared ledger with immutable audit trails. Trade lifecycle event communication can be transmitted and reconciled in real-time between counterparties. Direct participation from depositories can facilitate efficient, verifiable settlement. It enables the automation of lifecycle events such as mark-to-market and index-linked re-rates. Regulators can participate directly in the ledger, lessening the need for expensive regulatory buildouts. DLT acts both as a single source of truth and a communication medium for a diverse set of market participants. One such DLT offering is EquiLend's 1Source, planned to go live later this year, with NBF participating as a launch partner.

Zywot: At BNY, we invest heavily into technology and have adopted several forms of DLT and AI to streamline workflows, improve efficiencies and reduce human error. We have started to implement DLT and AI solutions across securities finance to better capture these opportunities and continually grow the business. Real-time settlement requires DLT to be effective and likely would be required if and when the industry moves to a T+0 settlement.

Canada, in general, has been a late adopter to technological and structural change (Canadian triparty repo is a good example). It seems the Canadian industry would rather take the “wait and see” approach to new technologies and structures allowing others to work through the potential difficulties and startup of a new product or technology.

Shadmann: The adoption of AI across the industry at an asset class level is of great interest to us. AI adaption will allow trading desks to consume and process massive amounts of data. This has a potential for immense utility towards predictive pricing decision suggestions at an individual security level. Factors such as availability, frequency of locates, corporate action events and general market information, to name a few variables, could be harnessed and distilled at a much faster pace to come to increasingly informed decisions at the trade level.

From a client perspective the adoption of AI in the client management space has been slow as companies choose to take a measured approach to the use and roll out of AI's features. We do see the potential for efficiency with regards to reporting, increased ability to provide and synthesize market colour in digestible sizes as well as provide more nuanced programme insights. There is also an expectation that some administrative tasks should be reduced allowing more time to be spent focusing on matters that enhance the client experience.

Yan: The integration of new technologies is progressively changing the Canadian securities finance market, unlocking new efficiencies and setting the stage for smarter, data-driven decision-making. From DLT and asset tokenisation to artificial intelligence and automation, digital tools are driving innovation across every aspect of the capital markets value chain.

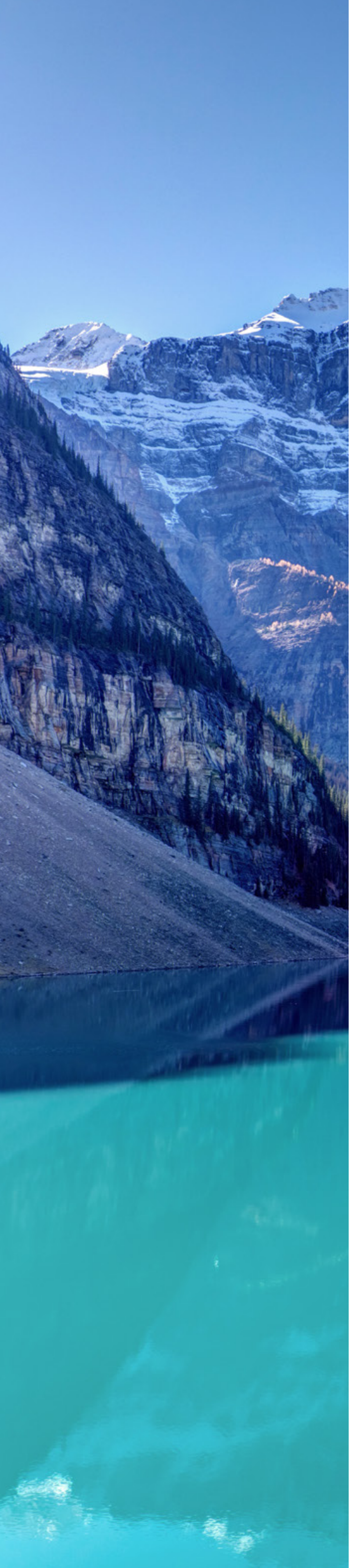
AI-powered analytics and machine learning models are becoming increasingly valuable in their applications toward trend analysis, demand forecasting and lending fee optimisation. These outputs are helping participants derive more actionable insights and inform higher quality risk-adjusted decisions with regards to their lending portfolios. Canada's regulatory ecosystem has kept pace, with the Canadian Securities Administrators publishing guidance on the ethical use of AI, encouraging responsible innovation while maintaining market integrity.

At RBC Investor Services, we are actively incorporating advancements into our operations — futureproofing the business by adopting scalable technology and partnering with service providers to further enhance data standardisation and transparency, with the goal of unlocking more transparent and meaningful insights for our clients.

Schuessler: I believe we are very much in the exploratory phase with respect to incorporating AI into the securities finance market. The industry in general carries a very large operational footprint, therefore incorporating AI will be very beneficial. It comes down to teaching the systems how to talk to each other and teaching a robot how to deal with a rate break, a mark, and the ALD process, etc. I think it is an exciting time and many vendors are already looking at how to take on the heavy operational nature of our business and incorporate AI features to solve issues and some are already offering solutions.

How do you assess the outlook for the Canadian securities lending markets for 2024-25?

Schuessler: There continues to be a high level of uncertainty in the market in general and the equity finance space is no different. In general, when there is much uncertainty and a looming potential recession exists, there is a lack of bond issuance, IPOs, M&A deals, which then bleeds into the secondary market. GC balances are then depressed and less deal stocks exist. However It is not all bad, as firms prioritise optimisation and collateral uses, those willing to accept lesser quality collateral, able to offer term, different structures or attractive rates will likely see growth in their securities lending books. I would anticipate demand for HQLA to remain robust however collateral and terms may vary. This volatility can also lead to more



direction shorting which is already playing out and should continue through 2025.

Trapp: Currently in Canada, overall demand remains fairly steady for securities lending. We expect that securities lending will continue to be a positive contributor to revenue for our clients throughout the remainder of 2025 and into 2026. With the on-again, off-again tariffs and brewing trade wars the market has seen extreme volatility and a flight to quality. Hedge fund activity has been tempered as a result of a risk off view. As mentioned, GC securities demand remains somewhat tepid so far in 2025, but we have seen a slight uptick for names and sector specific trading as the market continues to waver. Volatility in global commodity prices could bring an increase in demand for specific equity securities in the materials and energy sectors.

Our expectation is that DRIP and seasonal dividend trade demand will continue to provide a steady revenue stream for the remainder of the year and going forward.

Demand for HQLA and Canadian government bond benchmark issues will provide opportunities in both the term and open book space. Overall fixed income demand remains strong in Canada with utilisation and on loan balances growing significantly over the past year. There are still opportunities available in term and collateral upgrade trade structures although we have seen some softening in demand and downward pressure on those fees as some trades start to mature.

Borrowers continue to manage their long portfolios and balance sheets more effectively. Collateral flexibility will remain a driving force in revenue preservation and growth. Clients that accept a greater range of collateral will find themselves having a greater ability to participate in additional loan volume.

Herron: Canadian securities lending demand is expected to remain on a positive track over the next year. The industry feedback we have received indicates that current demand themes are expected to remain for the foreseeable future. We anticipate these current demand themes (e.g. collateral flexibility, risk weight, and offer rates) to also develop further. The Canadian stock market provides a diverse set of securities in many industries that will continue to drive borrower demand.

Zywot: The Canadian securities lending market is a dynamic landscape. We have now come into a period of volatility and uncertainty with the global trade wars, increasing global recessionary fears, geo-political instability, conflicts across the globe, and heightened tensions between China and Taiwan. With Mark Carney recently appointed as the new Prime Minister of Canada, we could see additional changes that may further impact this landscape.

With heightened volatility, one would expect increased volumes and specials in securities lending across the Canadian equity market, but this has yet to materialise. The uncertainty and rapid changes in direction in the trade wars have led to increased market volatility with many traders sitting on the sidelines. This may change with a trade war resolution. In the near term, expect the unexpected with continued bouts of volatility and potential major market and commodity swings. If trade wars are resolved and political stability returns, a long equity bias might return. With the uncertainty surrounding the trade wars and its potential impact on Canada along with global recessionary fears, further rate cuts could occur by the Bank of Canada.

Overall, one would expect some interesting times ahead in the securities lending markets, not only for Canada, but globally.

Yan: The Canadian securities lending market has had a strong track record of resilience amid ongoing change. Despite complex crosswinds, the market remains well positioned. Domestically, fixed income lending looks to remain strong, supported by ongoing rate adjustments and liquidity needs. The demand for front-end-of-the-curve, benchmark Canadian government bonds and provincial debt is expected to persist, especially given favourable repo market conditions and regulatory capital considerations. Meanwhile, equity lending should benefit from pockets of demand in sectors like energy and technology, especially as thematic trades emerge. Beneficial owners are increasingly keen on the events taking hold across the industry and are ready to partner closely to navigate the challenges and seize the opportunities.

The regulatory outlook is also a defining feature of the outlook ahead, highlighted by the government of Canada's mandatory fail fee and the SEC Rule 10c-1a. Furthermore, operational efficiencies remain front of mind as the global industry looks toward shorter settlement cycles.

At home, our clients are increasingly engaged, seeking real-time insights and thematic guidance to align their lending strategies with the pace of change. We are working alongside to create flexible, scalable programmes that will withstand regulatory scrutiny and macro headwinds while driving revenue growth.

Shadmann: The rest of 2025 should be an interesting time for the securities lending market. We are facing uncertain times in the global trade space and that has material implications in the stock market and repo market and, therefore, the Canadian securities lending market. Expecting volatility to remain a common theme, and when/if trade policies firm up there could be uptick in demand for names operating in particular sectors.

The political scenario in Canada is in the midst of change as well. Newly elected political regimes have historically created a period of uncertainty, which leads to some sectors winning while others lose. Again driving volatility and potential leaning of investors to increase short exposure as they take advantage of increased market choppiness. All eyes are on the US, looking for some sort of policy stability whether that be in the form of global tariffs or newly negotiated trade deals, if trade policies are not firmed up we expect investors to remain on the side-lines. This will cause a repeat of past years with more muted demand, particularly in the specials environment. Which also means a long bias needing financing and maintaining tight capital requirements. On the other hand if trade policy gets finalised with some sort of global tariff regime, we do expect to see an uptick in specials in the Canadian market.

Yared: While we want to be optimistic, the outlook for the Canadian securities lending market is mixed. On the one hand, one would expect investors to take advantage of market volatility as more opportunities for short selling arise, resulting in increased securities lending activity. On the other hand, the current geopolitical and macroeconomic environment is making market participants cautious as they wait on the sidelines for more US policy clarity around tariffs and possible trade deals.

Based on current market conditions, Canadian market participants should continue to expect higher securities financing levels for Canadian ETFs, similar to what is happening in the US market. The bought deal space will probably continue to be slow, and specials are expected to come from cryptocurrency, rare earth minerals, and EV-related securities, but may not persist over long periods of time.