



Canada: Time to talk

Industry experts discuss the Canadian market, looking at how structural change, collateral optimisation, and AI adoption are set to change the securities finance landscape

Panellists

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Canadian securities lending has historically been driven by a relatively concentrated group of beneficial owners and agents, how are you seeing that landscape evolve, and where is the next wave of supply coming from?

Mitch Bisnett: Canadian securities lending supply remains concentrated among a relatively small group of large pension plans, insurers, and asset managers — and that dynamic is unlikely to change materially. What is evolving is how these institutions engage with their lending agent. Governance is shifting toward tighter concentration limits, explicit return hurdles, and more detailed reporting. As a result, the focus has moved away from headline revenue toward more streamlined, policy-compliant utilisation metrics aligned with beneficial owner guidelines.

The next wave of supply is emerging from previously sidelined participants, deeper penetration of existing asset bases, and the expansion of fully paid lending (FPL) programmes. The entrance of FPL to Securities Finance has especially impacted hard-to-borrows (HTBs), where retail supply has a disproportionate holding, materially influencing this segment of the market. Retail FPL has proven effective at capturing the frenzied demand for popular meme stocks, which tend to have lower market capitalisations and limited representation in popular indices, resulting in reduced availability through traditional agent lenders.

Incremental growth is also being driven from within the existing asset owner base, where beneficial owners are becoming more comfortable aligning broader portfolio mandates with evolving market dynamics. This is a common theme with clearly defined constraints around recalls and corporate actions. Among long-established market participants,

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this discipline attracts cleaner economics, operational consistency, and fewer surprises. This is evident in large pensions and asset owners entering the market through directed lending mandates. In this scenario, beneficial owners can negotiate directly with the borrowers on terms such as eligible collateral, enabling more bespoke structures that have been historically underutilised. Broader collateral acceptance and greater alignment with market structures allow these programmes to capture incremental lending programmes more effectively.

Kyle Kolasingh: I would argue that the more-than CA\$3 trillion Canadian securities lending market is well-diversified and consistently demonstrates resilience in its asset safety and depth of liquidity. This year marks my 10th year in the industry, and Canada has always been the second-largest securities financing market globally. You do not hold on to that status without a well-functioning and diversified community of domestic and foreign stakeholders, especially given the consistent volatility experienced recently.

Canada's landscape accommodates diverse participants — from some of the world's largest pension plans and foreign sovereign entities to retail investors — who access the market through multiple channels, including third-party lending, agency lending, and peer-to-peer financing.

That said, this financial ecosystem is evolving rapidly, and our next wave of supply is undoubtedly the retail segment. Retail integration — long overdue — is finally gaining momentum. While the US fully paid lending market is large and growing, Canada's market is still in its early stages. The FPL segment in Canada remains largely confined to concentrated pockets of retail assets rather than comprehensive participation. But access to securities lending channels is growing for both the average investor and traditional broker-dealers alike.

Phil Zywoj: The Canadian beneficial owner landscape is diverse with a wide variety of lenders participating in agency lending programmes across Canada. Canadian pension funds, insurance companies, mutual funds, and asset managers are becoming more sophisticated, expanding collateral types and seeking more flexible, automated solutions. There has been a shift from securities lending being viewed

as passive revenue to a focus on optimising returns through various trade structures, collateral transformation, and different routes to market.

Agent lenders continue to evolve, investing in automation and technology, streamlining operations, and incorporating AI. The ability to leverage these has allowed agent lenders to optimise inventory, increase volumes and better manage the needs of both the borrowers and the beneficial owners.

Where is the next wave of supply coming from? Retail investors. The most significant emerging supply source is retail investors, whose participation brings new and often special supply, though their trading behaviour is more volatile. Regulatory changes could also unlock new supply and trade structures and help expand the breadth of the Canadian market. As the industry continues to evolve, current regulations need to be revisited and updated to current market demands and practices to help unlock this supply and allow Canada to remain competitive.

Ciaran Dayal: The traditional supply in Canadian securities lending has certainly been one of concentration across larger asset managers, pensions, insurers, and select global custodian agent lenders. The evolution has changed from less of a domestic supply story to more international such as sovereign wealth funds, global hedge funds, LDIs, and central banks. As foreign investment in Canadian assets increases, we are seeing that supply make its way into securities financing markets which has been quite supportive to overall collateral liquidity. Given Canada's strong credit rating, fiscal soundness, and perceived stability, this influx of foreign investment to our capital markets likely continues during these turbulent times which will reinforce this supply dynamic.

Carl Attie: Historically, securities lending supply in Canada has been concentrated among a relatively small group of participants — primarily pension funds, beneficial owners, banks, and bank-affiliated agent lenders. While this core remains essential, the supply base is clearly broadening as market structure and regulatory frameworks evolve. A key driver of this transformation is the emergence of retail FPL.

National Bank of Canada (NBC) played a leading role in securing domestic regulatory approval and was the first to launch an FPL programme in the Canadian market. We continue to work closely with regulators to enhance the retail investor experience and expand access to FPL across a wider range of account types and asset classes. We believe retail investors should have the opportunity to participate in this revenue-generating activity.

This development is introducing a more diverse set of participants into the market, thereby expanding and diversifying sources of lendable supply. At the same time, the Canadian market is extending access beyond traditional cash and margin accounts to include registered accounts such as registered retirement savings plans (RRSPs) and tax-free savings account (TFSA). Together, these changes represent a meaningful step toward a more inclusive and resilient securities lending ecosystem.

It is also important to highlight that Canadian pension funds remain among the most sophisticated participants in the global securities financing space, contributing significantly to the market's overall stability and resilience.

With the Canadian repo market undergoing significant structural change, including the move toward central clearing, how are dealers and buy side participants adapting their infrastructure and counterparty relationships?

Mary Jane Schuessler: Standardisation is priority. Canadian Collateral Management Service (CCMS) triparty is the starting point of any further structural development. Dealers and buy side plus custodians are meeting via different subcommittees under Bank of Canada's (BoC's) Collateral Infrastructure and Market Practices Advisory Group (CIMPA) to streamline processes and workflows in order to set ourselves up on the same playing field. Lots of testing between counterparties in order to ensure all use cases are covered for ongoing success to the CCMS infrastructure. Relationships wise — ongoing communication at industry groups on the direction of the cad repo market to ensure alignment across all key players in the Canadian dollar fixed income market. There

have also been meaningful conversations with hedge funds on sponsored repo in Canada, given the mandatory clearing in the US, to discuss lessons learnt that could be mirrored to Canadian market in the future.

Zywot: The launch of CCMS in 2024 by TMX Group and Clearstream, automates triparty repo transactions, streamlining trade lifecycle and collateral management. Firms are upgrading systems to integrate with CCMS and prepare for central clearing via the Canadian Derivatives Clearing Corporation (CDCC). The move to triparty continues to be an important improvement to repo infrastructure to connect cash and collateral providers for more liquid markets. Broader industry adoption will allow for increased efficiencies in repo trading processes and automation which should allow for expanded trade type (asset classes and structures). With the US Treasury central clearing mandate approaching, global markets including Canada are moving towards the use of central clearing, highlighting the need for increased transparency, reduced counterparty risk, and financial stability. Best practices need to be established taking into consideration central clearing membership requirements, legal agreements, as well as operational and risk needs to encourage widespread market acceptance. Overall collateral mobility should be improved with potentially more resilient access to repo liquidity and less reliance on a narrow set of bilateral dealer relationships.

Attie: From a Canadian repo perspective, change is happening on two fronts: operational standardisation and relationship redesign. The market is gradually moving away from a predominantly bilateral, security-by-security model towards a model built around triparty collateral management and, eventually, central clearing. This shift is the result of BA cessation, T+1 settlement, the move to electronic trading, and the launch of the CCMS, all occurring against the backdrop of CDS post-trade modernisation. For dealers, that means investing in connectivity, automating collateral eligibility, and preparing for CDCC-cleared general collateral workflows. The asymmetry today remains important: 2024 BoC data, which is still applicable today, show that about 89.7 per cent of interdealer repo volume is centrally cleared, versus only 5.2 per cent of dealer-to-client flow, largely because all major dealers are CDCC members while only a small subset of buy side firms are. The BoC's

announcement that it will join CCMS for its domestic repo operations by early 2027, and that it intends to join the CDCC to centrally clear its repo operations following the completion of CDCC's Repo 2.0 modernisation, is a strong signal to market participants.

On the buy side, the key question is which access model to choose. Larger pensions, asset managers, custodians, and public-sector cash investors are onboarding to CCMS so they can move from manual bilateral processing to automated basket-based collateral management. We have been actively participating in the CIMPA Standardized Basket Working Group to help establish collateral schedules and reporting models. In parallel, CDCC's Repo 2.0 roadmap lays out the next phase: a CCP-cleared general collateral (GC) triparty service, additional limited clearing members, a new category for pure cash providers, cross-margining with MX futures, and eventually sponsored repo or another alternative access model to broaden buy side participation.

Counterparty relationships are becoming more layered. Historically, a client needed a broad web of bilateral legal agreements, settlement arrangements, and manual operational touchpoints with each dealer. Going forward, the model is such that triparty manages collateral, the CCP provides netting and risk mutualisation, and the sponsor, dealer, or, custodian relationship becomes the gateway for many buy side firms. Netting, cross-margining, and resilient post-trade processes are therefore achieved for GC collateral. With that said, these developments will still take time and resources to be implemented. National Bank remains committed to actively supporting our clients while the industry goes through these changes.

Dayal: The Canadian repo market has gone through a wave of much needed innovation and advancement over the past few years, which has significantly improved the infrastructure and communication streams. Some of the more notable changes have been implementation of a domestic triparty and the growth of electronic trading platforms. We have seen a substantial increase in the breadth of buy side participation in our market and overall volumes which requires e-trading and triparty capabilities to ensure smooth functioning with timely and more automated execution. On

the triparty front, repo as a short-term investment option is now much more viable for many buy side participants who before viewed it as too operationally complex and resource heavy to transact in. The buy side involvement should naturally move from heavily concentrated with large institutional asset managers to opening up to smaller and medium sized accounts in addition to corporate participants given the much-improved infrastructure supporting our market.

In terms of central clearing, lack of accessibility and broader eligibility across asset types in the Canadian fixed income universe has prevented CCP scalability at a time when balance sheet and capital sensitivities are heightened. Central clearing in Canada largely remains dealer-to-dealer with limited buy side involvement. Thankfully changes are on the horizon as the BoC is set to join our CCP in addition to material enhancements which will improve accessibility to buy side, single ISIN eligibility in addition to transforming our GC market with clearable triparty and GC baskets.

As collateral optimisation becomes increasingly critical in a higher-rate, higher-volatility environment, how are Canadian institutions managing the tension between collateral mobility and operational complexity?

Brian Morrissey: Institutions are increasingly treating collateral optimisation as a strategic priority because stress events expose how delays in sourcing and posting collateral can quickly translate into liquidity risk and broader systemic pressure. Firms need collateral to move faster across counterparties, cleared venues, custodians, and jurisdictions. The margining ecosystem remains fragmented with siloed architectures, eligibility criteria differences, and sometimes manual instructions that impede real-time response. As a result, firms are prioritising centralised governance, data-driven decisioning, and scalable automation to reduce operational friction while preserving liquidity flexibility and compliance discipline.

To manage mobility without adding complexity, institutions are focusing on data consolidation in order to have greater visibility into inventory.

This is very important where collateral is trapped in disconnected systems and scattered across custodians. We see clients building a centralised approach that consolidates data, helps to orchestrate decision making, and automate allocations across the collateral ecosystem. Automation becomes the key component in streamlining eligibility checks, margin management, settlement and reporting to reduce manual errors and delays. This enables faster substitutions and allocation decisions during volatile periods.

At the infrastructure level, firms are pairing near-term fixes with longer-term modernisation to improve collateral mobility while reducing operational burden. They are integrating real-time data feeds for consolidated visibility, using API-driven connectivity across siloed systems, and implementing automated margin workflows to cut down manual processing and settlement risk. The goal across both horizons is consistent, which is to turn collateral management from a reactive, operationally heavy process into a proactive capability that preserves liquidity under stress without adding complexity.

Dayal: Canadian institutions are increasingly managing this tension by centralising collateral decision-making while automating execution. The synchronised goal is knowing which assets can be moved quickly, which must remain encumbered, and what the operational cost of each decision is.

I think one of the biggest changes we have seen is the centralised approach. Trading desks now are much more aligned with their treasury desks and financial resource management teams with a coordinated approach on liquidity, capital, and collateral usage across the firm. Traditionally we have seen banks work much more siloed and fragmented, but this has certainly changed with shared objectives and synchronised execution.

Kolasingh: Canada, unlike its developed and mature counterparts, still has room to enhance its market infrastructure and reduce areas of friction within its collateral ecosystem. Over time, the Canadian market has established multiple idiosyncratic capabilities (e.g. pledge, aggregate collateral value) that have proven to be impediments

to aligning with market standards and best practices. But the impediments to the infrastructure that supports collateral mobility working as it should are on their way to being resolved.

The implementation and adoption of the CCMS in the repo market will look to resolve the inconsistencies and lack of standardisation that lead to breakdowns and 'tension' in collateral mobility. Liquidity access is a key driver of this adoption, but the operational efficiencies that participating primary dealers and other stakeholders will gain are also important. The facility will mobilise otherwise dormant liquidity throughout the transaction lifecycle — liquidity that would remain inaccessible in bilateral transactions.

Additionally, the ability to transact uniformly across market participants will substantially improve transaction efficiency for all stakeholders. Future projects led by the CDCC — including the advancement of central clearing facilities — will not only further enhance an already robust risk landscape through additional mitigation but, arguably more importantly, reduce today's balance sheet constraints. While the infrastructure today may still require development, the wheels are in motion to get there.

Schuessler: The increase in collateral optimisation and that function becoming more critical is probably more a result of balance sheet optimisation across entire trading floors and having to integrate across silos especially as regulations and metrics change. This then results in the need for improved collateral mobility which affects operational and technological processes. There are vendor solutions that many firms are considering which have specialist platforms that provide real-time visibility across eligible collateral pools, margin requirements, and settlement locations. These solutions support automated eligibility checks, what-if analytics, and optimisation across CCPs, bilateral agreements, and custodians. There is also a general focus where firms are sequencing projects to focus first on areas with the greatest funding and liquidity impact whether that is asset seg models, smart bucketing, pledge structures etc. Then there is also the dynamic where front offices are no longer treating collateral optimisation as a purely downstream activity, firms are increasingly assessing new trades

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through the lens of their collateral profile and firm needs.

Bisnett: Institutions increasingly recognise that collateral optimisation without operational simplicity is unsustainable in volatile markets.

There has been a clear shift toward the use of triparty and agent-managed collateral models, particularly for high-volume and core lending GC activity. As electronic trading gains traction, this core GC activity allows borrowers to tailor their funding needs in a balance sheet-efficient manner, utilising historically ineligible assets on their balance sheet to enable growth. Outside of cash collateral, US Treasuries continue to dominate, reflecting their depth and the cash-like mechanics of these issuances.

However, as triparty agents gain traction, there has been a marked expansion in non-cash collateral, especially in Canada, where equity collateral and investment grade (IG) assets are structurally strong. Convertible bonds, American Deposit Receipts (ADR's), and IG sovereign bonds are increasingly being priced as acceptable collateral, adding liquidity through triparty models while reducing the operational burden of bilateral agreements.

In practice, borrowers optimise their book around core GC activities while reserving bilateral non-cash trades for securities with a narrower asset base. Triparty allows these flows to occur seamlessly. This evolution has not eliminated bilateral trades; rather, it has made them more targeted. Bilateral trades remain prevalent for dividend reinvestment plans (DRIPs), corporate action securities, and HTBs where the asset base is thinner and the mandates may be constrained (e.g. mutual funds and NI 81-102 restricting equity collateral). This fluidity of available collateral pools allows counterparties to be more agile and capitalise on market opportunities as they arise, operating in a hybrid model rather than relying on a one-size-fits-all solution.

Zywot: Canadian institutions are addressing the tension between collateral mobility and operational complexity — especially in a higher-rate, higher-volatility environment — by fundamentally transforming their collateral management frameworks.

Leveraging the abilities of triparty providers such as BNY and their collateral optimisation tools give collateral providers an efficient way to optimise collateral across various counterparts.

The CCMS automates the full lifecycle of repo trades, enabling rapid movement and substitution of collateral while reducing operational risk and manual intervention.

- Institutions are deploying systems for real-time, enterprise-wide views of collateral across business lines and custodians, breaking down silos and mobilising underutilised assets.
- Advanced algorithms and automation tools help select the most cost-effective and liquid assets for margin requirements, balancing regulatory requirements with capital efficiency.
- Data-driven dashboards and scenario analysis are used to forecast collateral needs and stress-test liquidity under volatile market conditions.
- Collateral management is now seen as a source of post-trade alpha — generating value by minimising opportunity costs and mobilising liquidity efficiently.
- Regulatory expectations are driving integrated risk management, with closer oversight of liquidity and funding risks.
- Transitioning to automated, centralised systems is resource-intensive but necessary for competitiveness and compliance.
- Heightened capital and liquidity requirements make efficient collateral use essential, especially as the opportunity cost of idle assets rises.

Attie: Collateral optimisation is becoming a business capability, not just an operational function. In a higher-rate, higher-volatility environment, trapped or inefficiently allocated collateral has a real cost, so Canadian institutions are focused on making collateral more mobile while keeping the operating model controlled and scalable.

The way to manage that tension is to move away from desk-by-desk collateral decisions toward a more centralised, enterprise view.

That means better visibility across securities finance, repo, treasury, derivatives, and margin; consistent treatment of eligibility, haircuts, concentration limits and settlement needs; and more automation

around substitutions, allocations, and instructions with custodians and triparty agents. The goal is not mobility at any cost. It is controlled mobility — moving the right asset to the right place at the right time, without adding manual work, settlement risk, or operational drag.

How has the experience of recent market stress events reshaped how your organisation thinks about intraday liquidity risk and the role securities finance plays in your broader liquidity framework?

Zywot: A few clear themes have emerged from recent stress episodes: intraday liquidity is now managed much more actively. Firms are spending more time on timing mismatches, collateral sequencing, margin-call peaks, and settlement bottlenecks — not just end-of-day liquidity. Securities finance is increasingly treated as a core liquidity tool, not just a revenue activity. Repo, securities lending, and collateral transformation are being viewed as mechanisms to mobilise inventory quickly and meet funding or collateral needs under stress.

Stress testing has become more granular. Institutions are focusing more on scenario analysis around collateral outflows, counterparty concentration, clearing flows, and settlement-cycle compression, especially in a T+1 environment. Operational readiness matters as much as balance sheet strength. Recent events showed that having liquidity on paper is not enough if firms cannot move collateral or cash quickly enough across entities, agents, custodians, and clearing venues.

Intraday visibility has become more important. Many organisations are investing in better dashboards, real-time monitoring, and crossproduct views of cash, collateral, and obligations to identify pinch points earlier. Contingent funding sources are being reassessed. Securities finance programmes are being evaluated for reliability under stress — what inventory can actually be financed, with whom, on what terms, and at what speed. Counterparty and infrastructure resilience are getting more attention. Firms are looking harder at agent lender capacity, dealer balance sheet availability, CCP access, custodial arrangements, and settlement dependencies.

Overall, recent stress events have pushed organisations to integrate securities finance more tightly into the broader liquidity framework as a strategic lever for collateral mobility, funding flexibility, and intraday risk management rather than a standalone market activity.

Dayal: The recent market stress events have underscored the importance of timely liquidity and collateral mobility and with that securities finance playing an even larger role in our institution's overall liquidity framework. Securities financing capabilities in funding and collateral markets act as a pressure valve when liquidity and/or settlements seize up. Intraday repo has now become more in the forefront as we think of ways we can meet liquidity challenges in stressed environments. We are now thinking more outside of traditional liquidity arrangements with the focus on additional levers to optimise our liquidity needs. Timely liquidity for the specific periods when need it is just not a risk management decision in stressed markets but an optimisation decision as well.

Morrissey: Intraday liquidity risk starts from the premise that market stress can emerge suddenly and force asset owners and managers to raise liquidity quickly, particularly as settlement cycles compress and operational timelines tighten. In that context, intraday liquidity resilience is about ensuring the firm can mobilise assets reliably and manage margining and funding demands during fast-moving markets, especially as the market structure evolves. We must maintain robust controls around data, model outputs, and supervisory oversight when technology is used to support liquidity and cash management decisions. We recognise that liquidity outcomes can degrade when market conditions diverge from assumptions, which is why we benefit from strong monitoring, experienced traders, fallback plans, and cross-functional governance across business, risk, compliance, and technology.

Within that broader liquidity framework, securities finance plays a practical role as an asset-mobilisation and balance sheet efficiency tool helping clients preserve and free up cash by using a broader eligible collateral set. We educate clients on the need to have diversified collateral options (e.g. corporates and equities) rather than relying solely on cash and cash equivalents, while still meeting margin

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and funding needs. Buy side institutions are increasingly focused on asset pool optimisation because non-cash collateral can reduce cash reinvestment risks, improve netting and operational efficiency, and preserve high-quality liquid assets (HQLA) for other needs. Triparty and post-trade infrastructure can help centralise and automate collateral movement across counterparties to meet time-sensitive obligations. From a regulatory lens, initiatives like the Securities and Exchange Commission's (SEC's) US Treasury clearing mandate further reinforce the value of scalable collateral and financing operating models as market structure evolves toward more centralised clearing.

Attie: Recent stress events reinforced the robustness of our intraday liquidity framework, but they did so against a backdrop of structural change in how liquidity is demanded and deployed. The rollout of 24/7 real-time payment rails, such as RTR in Canada and FedNow in the US, is accelerating the shift toward always-on money movement, while extended trading hours and near-continuous markets are pushing margin calls and settlement obligations beyond traditional banking windows. At the same time, greater CCP margin volatility has increased the unpredictability and time sensitivity of intraday liquidity needs.

In this context, intraday liquidity management is increasingly defined by precision, timing, and operational readiness. High-quality, real-time data is foundational, underpinning our ability to accurately monitor obligations, prioritise and sequence payments, and mobilise liquidity with confidence across time zones, supported by a global operating model with continuous coverage. We also actively monitor emerging technologies, such as tokenised deposits and blockchain-based settlement models, which have the potential to further reshape intraday liquidity dynamics and efficiency. Overall, recent stress episodes validated not only our framework, but also the importance of continuously evolving intraday liquidity practices in an increasingly real-time, technology-driven market structure.

Bisnett: Recent market stress events have reshaped how we think about liquidity risk in very practical terms, particularly from a Canadian market perspective. Liquidity is no longer viewed as an end-of-day

consideration or a function of regulatory ratios. Rather, it is dynamic, tightening or easing over the course of a trading session. Against the backdrop of US policy uncertainty, geopolitical shocks and rate volatility have become recurring features of day-to-day desk activity. In a market like Canada where depth is limited and cross-border flows are an inherent feature, the pressures of liquidity tend to surface faster. The focus has therefore shifted to high-quality securities and, critically, to the mechanisms that convert inventory into useable liquidity to meet settlement-day demands.

From an agent lender perspective, this is evident in growing demand for upgrade trades into HQLA. Having the right collateral, in the right currency, at the right time has become critical. Securities lending and repo now play a much more integrated role alongside treasury and funding teams, providing intraday flexibility and acting as shock-absorbers during periods of market stress. Being well positioned in calmer periods is key to having the readiness to act in volatile conditions, when liquidity can evaporate quickly. Firms are increasingly bringing treasury functions closer to securities lending desks, highlighting that stress mitigation is a strategic priority — not merely a yield enhancement tool.

Schuessler: Market volatility especially when underpinned by geopolitical conflict is certain to attract attention from all aspects of capital markets activity. Securities lending and repo are increasingly viewed not just as balance sheet or revenue tools, but as critical liquidity levers. The ability to transform assets, generate cash quickly, or mobilise high-quality collateral intraday has become central to liquidity resilience, which if you have the infrastructure and pipes in place, generally, this can come down to price considerations. In terms of intraday risk, firms are placing much greater emphasis on real-time or near-real-time visibility into cash and collateral flows across clearing, bilateral margining, settlements, and funding desks. Operational preparedness has also become a much larger focus.

In today's landscape, many institutions are formalising stress-period playbooks and running internal 'fire drills' that test their ability to meet intraday liquidity demands under extreme but plausible scenarios.

These exercises typically involve treasury, collateral management, securities finance, risk, and operations working together to simulate rapid margin calls, settlement disruptions, or market closures, helping to surface bottlenecks well before a real event occurs.

Kolasingh: Volatility is the new normal. Whether it is a pandemic, a short squeeze or a politically motivated social media post, effective risk management and the safeguarding of a well-functioning securities finance ecosystem is paramount. As an agent lender, our markets are technically T+0; however, a stock loan transaction is often only the beginning or an intermediary step in a trade's complete lifecycle. At RBC Investor Services, we apply rigorous risk management to our transaction lifecycles because they directly impact intraday liquidity and risk across the domestic market, especially given our position as the number one lender of Canadian government bonds.

Our view and intent is to never limit liquidity and collateral mobility, whether it is a sale proceeding in the market to settle or collateral being efficient in its mobility across the street. As triparty repo agent for the morning auction of receiver general cash balances, we have recently renewed operational procedures to introduce netting and reduce transaction costs, ensuring that intraday liquidity risk across the broader domestic network continues to be well-mitigated during periods of volatility. We are privileged to operate this important facility on behalf of the Department of Finance, providing a crucial avenue for managing daily liquidity and a stable source of short-term funding for the Canadian financial system.

With CIRO's evolving mandate and ongoing alignment with global frameworks like Basel IV, where are you seeing the greatest regulatory pressure on your securities finance business – and what is the unintended consequence you are watching most closely?

Bisnett: The Canadian Investment Regulatory Organization (CIRO) governs how securities finance activity is conducted, while Basel IV shapes the capital footprint. Although closely linked, they serve different purposes. While CIRO is focused on discipline and settlement

integrity, Basel IV penalises intraday exposures and unnetted securities finance transactions. Where they intersect is notable, as it is actively reshaping market behaviour. Borrowers are becoming more selective in how they deploy their balance sheet to fund incremental trades. At the same time, lenders face heavier balance sheet usage to support the same level of activity. The result is a two-sided constraint: heightened conduct expectations from CIRO, combined with higher capital and leverage costs under Basel IV.

The unintended consequence we are watching most closely is a growing 'flight to mobility' and balance sheet elasticity. Borrowers are increasingly prioritising sources of supply that are stable, capital-efficient, and less recall prone. As a result, balances are shifting toward counterparties such as beneficial owners that are deemed to be low risk-weighted assets (RWA). Capital-friendly structures, such as pledge and client directed trades that occur off balance sheet, are also becoming more prominent. During periods of stress, liquidity becomes strained, risk is warehoused, and term funding becomes both scarcer and more expensive to access. While activity does not stop, it increasingly gravitates toward counterparties who are in the best position from a capital and conduct perspective, reinforcing the feedback loop of balance sheet elasticity. The risk is less about instability than of dislocations in funding rates, recalls, and settlement – which are amplified in a market like Canada where market depth is already thinner than in larger markets such as the US.

Dayal: Risk and leverage-based regulatory capital measures put a considerable amount of pressure on the securities financing business. The decisions and behaviours of securities financing desks are largely dictated by regulatory measures that we see in global frameworks such as Basel IV. A big part of that is due to SBL and repo desks largely being seen as businesses that can scale balance sheet up and down much more swiftly than others. Of course, the unintended consequence of this is more frictions in intermediation and potentially reducing available liquidity to the market when it needs it the most. As we have seen central banks much more active as liquidity providers in repo markets, specifically in Canada, and regulators lessen the burden on banks' capital buffers in stress events, I do not believe these

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frameworks exacerbate liquidity strains during a crisis. That being said, in benign times they certainly do add to funding pressures specifically during reporting periods.

Zywot: The Basel IV output floor limits capital relief from internal models, increasing capital requirements for securities finance and repo activities. Canada's rapid Basel IV rollout (ahead of the US, UK, and EU) puts domestic banks at a competitive disadvantage, forcing faster adaptation and potentially curtailing risk appetite and market-making capacity. More granular capital, leverage, and liquidity calculations require major investments in data, reporting, and risk infrastructure.

CIRO's direction of travel is clearly toward tighter controls around locate/borrow/settle outcomes, not just the trade decision. The clearest example is CIRO's proposal to introduce mandatory close-out requirements (similar to Reg SHO in the US) tied to persistent fails-to-deliver (FTDs): dealers would have to buy or borrow to close out a fail within defined timelines; if they do not, they face pre-borrow requirements on future shorts in that name, plus added reporting/notification

In practice, that directly increases the value and scrutiny of the borrow supply chain:

- availability and reliability of locates
- speed/quality of recalls, rerates, substitutions
- operational ability to source hard-to-borrow in stress
- controls proving "reasonable expectation to settle" and evidencing actions taken when settlement breaks
- Rule harmonisation and modernisation (integration of legacy SROs) is driving operational and compliance change, requiring system and process overhauls.
- CIRO's focus on investor protection, complaint handling, and operational efficiency increases compliance and technology burdens.

Most closely watched unintended consequences:

1. Reduced market liquidity. Higher capital requirements may force banks to shrink their securities finance and repo books, reducing

market liquidity and increasing trading costs for all participants.

2. Increased end-investor costs. Higher capital and compliance costs are likely to be borne by the agent lenders resulting in lower returns.

3. Business model shifts and capital flight. Some activities may migrate to less regulated or slower-to-implement jurisdictions, potentially eroding the competitiveness of Canadian capital markets.

4. Close-out rules push dealers to buy/borrow urgently to cure fails.

That urgent demand drives borrow costs, recall risks, and the potential for a short squeeze higher.

Pressure point	Impact on securities finance businesses	Closely watched consequence
Basel IV output floor	Higher capital requirements, less flexibility	Reduced liquidity, higher costs
Accelerated Basel IV timeline	Competitive disadvantage, operational strain	Capital flight, business model shifts
CIRO rule harmonisation	System/process overhaul, increased compliance burden	Implementation risk, operational errors
Investor protection mandate	More oversight, higher compliance costs	Slower innovation, increased costs

Beyond the pilot stage, where do you see tokenised collateral and digital assets making a genuine operational impact in Canadian securities finance over the next three to five years?

Schuessler: I think the real impact of tokenised collateral and digital assets will be the flexibility to move assets across the globe at any time. In general, I would say Canadian institutions tend to be pragmatic and risk-focused, so early production use cases will likely sit alongside traditional infrastructure, and this will likely take time. Tokenisation should allow firms to unlock balance sheet capacity by improving

re-use, substitution, and transparency without materially increasing operational risk.

Dayal: Beyond the pilot stage, I think the next steps will be operating in a permissioned and close ecosystem where collateral transfers between affiliated counterparts and possibly central banks will be first to move on-chain. That being said, I see the next three to five years being instrumental in how traditional securities financing activities embrace and adapt to tokenisation. Those markets that act prudently but quickly and really invest in digital infrastructure will likely reap the benefits. Early signs are pointing to a massive enhancement to settlements, collateral optimisation, and liquidity transfers among others, but with a firm regulatory framework still needed the hope is the Canadian market moves promptly so we can be a leader in the tokenised securities financing market.

Morrissey: Beyond pilots, the most tangible operational impact in securities finance is likely to show up where tokenisation directly reduces today's cutoffs, settlement friction, and trapped liquidity — especially intraday repo/secured funding and collateral mobility. Near-real-time settlement on unified digital rails which can support intraday liquidity and expanded market hours. This will also enable smarter lifecycle automation to reduce reconciliation and manual processing. In practice, this can make funding more precise and operationally lighter than current batch cycles.

Second, expect tokenised money market funds (tMMFs) and other similarly tokenised collateral to matter most when they keep yield-bearing assets productive during margin and lending activity. For example, posting collateral without forcing redemptions and without being constrained by transfer-agent ledger mechanics. At J.P. Morgan's Tokenized Collateral Network, this is seen as unlocking MMFs from transfer agent ledgers to mobilise them as collateral, with benefits like retaining yield while in use and avoiding redemption during margin calls. More broadly, tokenised MMFs are positioned to enable 24/7 transfers, faster DvP settlement alongside onchain money, and improved collateral efficiency/intraday liquidity, particularly when they sit

on the same ledger as deposit tokens, stablecoins, or blockchain deposit accounts.

The gating items for genuine scale over three to five years are less about technical feasibility and more about controls, governance, and integration. As those pieces land, the operational win is a shift from move-and-reconcile across ledgers to shared-ledger workflows where eligibility rules are embedded, settlement can be effectively continuous, and custody expands to include key management and multi-chain connectivity with appropriate policy controls.

Zywot: Beyond the pilot stage, tokenised collateral and digital assets are expected to deliver genuine, scalable operational impacts in Canadian securities finance over the next three to five years in several key areas:

Accelerated and automated settlement near-real-time (atomic) settlement. Tokenisation will enable simultaneous exchange of assets and cash, drastically reducing settlement risk and operational delays — especially as the market has adapted to T+1 and eventually considers T+0.

Smart contract automation. Settlement instructions, corporate actions, and lifecycle events will be automated, reducing manual errors and operational costs.

Collateral mobility and optimisation intraday liquidity management. Tokenised collateral can be moved instantly, allowing institutions to optimise collateral usage throughout the day and respond to margin calls or funding needs in real time.

Broader collateral pools. Traditionally illiquid assets (e.g. private equity, money market funds, real estate, infrastructure) can be fractionalised and used as eligible collateral, expanding the available pool for securities finance transactions.

Cross-entity and cross-border mobility. DLT will streamline collateral

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transfers across entities and jurisdictions, reducing friction and delays.

Repo market transformation automated repo lifecycle. DLT-based repo platforms will automate the entire repo process — from trade agreement to settlement and collateral substitution — improving efficiency and reducing operational risk.

Flexible funding. The ability to settle and substitute collateral with precision will give dealers and buy side participants more flexibility in managing funding and liquidity.

Post-trade infrastructure modernisation integration with CDS and CCMS. As the CDS and CCMS modernise, tokenised assets will be integrated into mainstream post-trade workflows.

Regulated digital cash. The anticipated launch of a Canadian dollar stablecoin (e.g. QCAD) will provide a compliant digital settlement asset, further enabling atomic settlement.

Regulatory and ecosystem maturation regulatory clarity. Canadian regulators are working with industry to clarify rules for tokenised assets, paving the way for broader adoption.

Industry collaboration. Projects like Jasper-Ubin and Project Tokenisation are building the frameworks for scalable, interoperable tokenised collateral solutions.

Kolasingh: Operational alpha and increased liquidity — this will be the impact of tokenised collateral mobility and digital asset integration in the Canadian securities finance landscape. And we are already beyond the pilot stage: Project Samara used distributed ledger technology (DLT) for end-to-end tokenised bond issuance, trading, and settlement between the BoC, Export Development Canada, and RBC. RBC Investor Services proudly acted as the bond reconciliation agent in this transaction, which demonstrated that we can employ atomic settlement domestically.

This is an exciting start for the Canadian financial system, but going forward will require a high degree of coordination and integration

across the entire value chain — from regulators to market participants. While tokenisation and digital asset adoption have been somewhat limited domestically compared to other markets, the discussions are encouraging, and the momentum for change across our industry is at an all-time high. Over the next three to five years, we expect to have a broader understanding of the liquidity and market access benefits, associated cost reductions and ease of settlement and clearing that these advancements will deliver.

Bisnett: Beyond pilot programmes, tokenised collateral has the potential to deliver meaningful impact on Canadian securities finance, likely beginning with narrow, high-quality use cases. Much of the industry's attention has shifted toward AI and large language models (LLMs), which has at times pushed tokenisation into the background. That said, tokenisation continues to move closer to commercial viability. The firms that lead will be those willing to adopt early and thoughtfully. Early participants are likely to include large custodians and broker-dealers, as well as fintech firms with deep technical expertise. From an agent lender perspective, there is existing scale in the triparty and settlement infrastructures. The most realistic use case would involve high-quality collateral such as cash equivalents and government securities where operational rules are well understood and risk is lowest. In these segments, tokenisation can shorten settlement cycles, positioning it as a viable path toward a T+0 environment, or near real-time settlement.

Being the first mover has advantages in shaping the standards and embedding tokenised flows into existing workflows. Near-instantaneous collateral settlement and the ability for prospective loans to follow that lifecycle can increase liquidity while also reducing recall and buy-in risks. However, this also introduces risks related to legal enforceability, integration with legacy frameworks, and costly overhead — all of which warrant careful consideration at the management level. For large incumbents, being an early adopter rather than the first mover may be a prudent strategy, influencing design and operational deployment while selectively entering the market with stronger governance and controls in place.

As firms move from AI users to AI builders, what does meaningful AI adoption actually look like inside a securities finance desk and how do you measure whether it is working?

Chris Testa: AI is becoming embedded across our securities finance desk through two core fronts: execution and analysis. Meaningful AI adoption lies at the intersection of the two, where our traders shift beyond simply querying AI chatbots to tangibly shaping solutions that are integrated into their daily workflow. Across settlement lifecycle monitoring, pricing administration, recall chasing, and exception and break management, there are many tasks today that dilute the desk's core function and decision-making. As a result, our traders end up being reactive to the highest-impact actions rather than being proactive in developing strategies and capturing market opportunities. Where we unlock efficiencies and reduce much of this noise is through better routing, flagging, and information enriching behind the decisions that touch our desk. Integrating AI into this process starts with codifying the decision logic and controls that underpin many of these workstreams. The goal is not to automate everything end-to-end, but rather to consistently aid our traders with the right information at the right times so they can spend less time patching non-trading demands.

On the analytical front, the build-out is equally deliberate. Across utilisation, loan duration, benchmarking, and borrower and lender activity, there is significant untapped potential in how we aggregate and interpret the countless data points our desk captures daily. Pattern recognition allows us to cover multiple dimensions simultaneously. This allows us not just to move faster, but to also see more clearly and respond with greater intention. As for measurement, the frame that matters is not quantifying the AI adoption itself, but rather the desk performance. Our traders will spend less time in the weeds of the processes and more time driving borrower and client outcomes, risk-aware trading, and tailoring our market strategy.

Attie: Meaningful AI adoption on a securities finance desk means moving beyond ChatGPT prompts and embedding AI into the workflows where speed, judgment, and operational precision matter

most — using it to surface inventory opportunities, accelerate locate responses, prioritise recalls and fails, improve exception management, support collateral, and settlement processes, and give trading and operations teams faster access to the information they need to make better decisions. The shift is from AI as a productivity tool on the side of the desk to AI as part of the desk's operating model.

We measure whether it is working across four dimensions: economics, control, productivity, and governance. Economics means better inventory utilisation, improved revenue opportunities and lower funding or collateral costs. Control means fewer fails, fewer missed recalls, fewer manual breaks, and more consistent outcomes. Productivity means faster locate, allocation and exception-resolution times, with more straight-through processing. Governance means use cases are transparent, monitored, fit for purpose, and supported by clear human oversight. When AI consistently improves those outcomes without adding complexity or unmanaged risk, it has moved from experimentation to meaningful adoption.

Bisnett: Meaningful AI adoption is inherently anchored in commercial outcomes, particularly revenue uplift and balance sheet efficiency. In practice, AI is most impactful when it augments decision-making rather than replacing human judgement. On an established securities finance desk, this means using AI to enable faster, more informed decisions, tighter pricing, and more effective inventory management. Success is often measured by the removal of repetitive, manual tasks from a trader's workflow, freeing up time for them to focus on higher-value activity. Practical use cases include models that identify emerging specials or flag underpriced demand — key hallmarks of a modernised trading desk.

What does this look like from a desk perspective? Reports that once required daily manual manipulation can be automated and tailored to a desk's specific needs, even by users with little to no coding experience. Traders no longer need to pore over lengthy documents or wrestle with spreadsheets; AI can surface the most relevant information and deliver a final output within seconds. The result is faster decision-making with fewer touchpoints, allowing more time for

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strategy and counterparty relationships instead of manual workflows. One of the clearest wins of AI adoption is giving traders more time to deepen relationships to grow their book of business, rather than being bogged down in spreadsheets. The desks that benefit the most from AI are those that translate these efficiencies into tighter pricing, clearer insight into dispersion between achieved rates and incremental revenue, and spending more time engaging with their counterparties to increase their book of business. In that sense, AI becomes a direct enabler of growth and not merely an operational tool.

Kolasingh: With any technological advancement, success directly correlates with adoption and the cultural shift required. The securities finance value chain is still in the early stages of meaningful AI adoption. At RBC Investor Services, we have integrated an internal AI assistant into our daily operations, initially using a broad approach to identify the most valuable applications.

I anticipate we will see the greatest benefits where teams will shift from manual processing to oversight and strategic applications. Our product development team is using AI extensively in its due diligence exercises to organise market insights with product design elements.

Additionally — and, yes, I am biased here — I see fantastic opportunities to transform the way we manage client relationships and sales by rethinking portfolio views, projections, and predictive functions that can help anticipate liquidity needs and get ahead of investment activity. But the greatest payoff will emerge in periods of market dislocation, when timing is everything.

Dayal: AI is still very much in the discovery phase on how it can support securities financing markets. Initially looked upon for automation assistance and analytics, it is now being embedded in workflow decisions. With that, the decision quality is key and as firms become more comfortable and trustworthy of AI functionality and learning models I think we are likely to see AI being more integrated in workflow decision making. Really the primary way to see if its working is examining the outcomes versus overall level of AI sophistication. If firms see broad-based improvement in client servicing, collateral

optimisation and more resilient liquidity profiles among other outcomes, then they can confidently measure how successful it is.

Zywot: Meaningful AI adoption on a securities finance desk means AI is deeply embedded in daily operations, decision-making, and client service — not just used for isolated automation. Here is what that looks like and how to measure its effectiveness as firms move from AI users to AI builders:

What does meaningful AI adoption look like?

- Integrated, data-driven decision-making. AI models optimise inventory allocation, collateral selection, and pricing in real time, factoring in market data, counterparty risk, and regulations.
- Predictive analytics. Machine learning forecasts demand for specials, recall risk, settlement fails, and liquidity, enabling proactive trading and risk mitigation.
- End-to-end workflow automation/operational efficiency. AI automates repetitive tasks (e.g. reconciliation and margin calls), freeing staff for higher-value work and resulting in fewer settlement fails, improved recall processes, and faster exception resolution.
- Client interaction. AI-powered chatbots handle routine queries and onboarding, client reporting, improving service and reducing manual workload. This leads to faster response times, more tailored solutions, and higher client satisfaction
- Continuous learning. AI systems learn from new data and user feedback, refining predictions and recommendations.
- Custom tooling. The desk develops proprietary AI tools tailored to its unique needs, moving beyond off-the-shelf solutions.
- Human-AI collaboration: Traders and risk managers use AI insights to inform their judgment, creating a feedback loop that improves both human and machine performance.

Meaningful AI adoption means AI is part of the desk's DNA — optimising trades, automating workflows, and augmenting human expertise. Success will be measured by improved financial outcomes, risk metrics, client satisfaction, and the desk's ability to innovate and adapt. ■