Securities Finance Times

The primary source of global securities finance news and analysis

Issue 377 13 May 2025

Securing new opportunities

RBC Investor Services on the changes in beneficial owner demands and its new strategy for shaping the future of securities finance

Securing new opportunities

The RBC Investor Services' team offers their perspective on the changes in beneficial owner demands, where they see opportunities in the Canadian and emerging global markets, and how the firm's new strategy is shaping the future of securities finance

Where do you see the future of securities financing solutions and opportunities for beneficial owners?

Kyle Kolasingh: We see two promising avenues for growth in securities financing — emerging markets and the rise of the retail investor.

The securities lending market is already fairly mature, with more than four decades of development. But many emerging markets and asset classes remain untapped from a financing perspective. As global economies expand, the need for liquidity increases. As a result, there is significant untapped or under-utilised value to be found in markets like the Philippines, Indonesia, the Middle East, India, and China.

It will take time for these markets to enter the securities lending space, as infrastructure, tax, and regulatory bodies converge with an aim to enhance liquidity and bolster market functionality. In the shorter term, we see incredible alpha opportunities in Brazil. This is a good example of the time it takes burgeoning markets to come online. With more than a decade of discussions and market-building activities already underway, the possibility of the Brazilian market opening to foreign lending players has never been closer.

The second key area is the retail investor. No longer a novelty to the securities lending arena, the rise of retail assets in the lendable pool continues to grow and can no longer be overlooked — despite the added operational complexities. In the US, the retail segment of lendable assets has become a key driver of returns due to the fact that this is now where hard-to-borrows (i.e. securities in short supply) hide.

In Canada, the fully paid lending market continues to grow with an increasing number of wealth managers tapping the lucrative possibilities of securities lending to gain a competitive advantage. That said, the technology required for scaling this business has not been adopted as widely in Canada as in the US or Asia. At RBC Investor Services (RBCIS), we are optimistic about the opportunities for wealth managers and investors, and have embedded the development of these access points into our multi-year modernisation plans.

How do you balance the needs of beneficial owners with those of your global borrowers?

Chris Barrand: The geopolitical landscape presents both opportunities and risks, as we have seen before with supply chain disruptions and, more recently, with trade restrictions. It can create opportunities for securities lending but, at the same time, expose lenders to increased counterparty risk. It is all about finding the right balance; beneficial owners are striving for better returns and data transparency while our borrowers need automation and cost-effective accessibility to securities.

Keeping up with evolving regulations is key to making this all work, especially across the different regions. Whether it is the changing landscape in Europe around withholding tax entitlement, or adhering to market guidance in specific APAC markets to meet revised short sale measures, it is important to have constant dialogue with your beneficial owners to manage their expectations.

There is always interest from our clients to work with us to understand and reassess the impact of these changes in each market, and to evaluate and determine the risk-reward. As well as working closely with our respective industry associations, our global footprint has enabled us to build and maintain diverse borrower relationships to ensure we are well-positioned to adjust and find solutions.

How has the Canadian market performed so far in 2025?

Arthur Kolodziejczyk: Broader market conditions have fluctuated, driven by global trade tensions and sector-specific challenges stemming from uncertainties in trade relationships, especially with the US. The Canadian fixed income sector has been marked by volatility influenced by domestic and external market dynamics. Although the demand for provincial bonds varies, there is stable interest in benchmark Canadian sovereign bonds, particularly at the front end of the yield curve. The excess supply of liquidity in the cash market has led dealers to cover their positions in repo and benefit from both lower rates and minimal haircuts, thereby allowing cash to be raised at favourable rates.

As the economic outlook softens, prompting the Bank of Canada to lower interest rates, yields have declined, leading to an increase in sales and a general reduction in client holdings. With the start of the rate-cutting cycle, clients have had to explore alternative avenues for generating alpha. Consequently, term lending has remained stable amid various regulatory requirements and funding needs, with higher rates available for clients willing to accept collateral further down the risk spectrum.

While the Canadian securities finance market has seen some growth in bond investments and trading activities, the issuance of equities has encountered obstacles, and overall market sentiment remains cautious amid global economic uncertainties. The Canadian securities lending market is poised for significant revenue and portfolio optimisation opportunities for beneficial owners who collaborate closely with their agent lenders to leverage timely developments.

Emerging markets outperformed the larger securities lending markets in 2024. Where do you currently see value on the global horizon?

Barrand: Based on our client holdings, we see South Korea, Taiwan, Thailand, and Turkey presenting the most value. In recent years, South Korea has generated lucrative returns for lenders given the directional opportunities it presents. However, short sale bans have curtailed activity at times, with the most recent one put in place from November 2023 to June 2024 before being extended to March 2025.

Following the introduction of stringent revisions to short selling rules — including a term of limit of 90 days, rollable three times to a maximum of 360 days, and revised guidance on the recall process — the short sale ban has been lifted, although the general sentiment is that lending activity may not experience an immediate spike as market participants ensure they are well-positioned to adhere to the new measures.

We see Thailand as having the potential to add significant value to lending revenues, given the positive outlook for the Thai economy. However, the proposed changes by the Securities and Exchange Commission, Thailand (SEC), where foreign investors need to adhere to the same rules and regulations as local investors, require further attention. That said, the standout market in the region from a revenue-generation perspective is Taiwan, where borrower demand continues to exceed lendable supply, driving lending fees higher.

Demand is driven by directional strategies associated with the technology sector, with dominance from stocks in the semiconductor, artificial intelligence, and chipmaker spaces. Although the returns for lenders are attractive, it is imperative to have robust measures in place, pre-sale notifications in particular, to ensure market recalls can be issued in good time. The recent tariffs imposed by the US have led to the Financial Supervisory Commission introducing temporary short sale measures, which at present are being rolled weekly. The hope is that market conditions stabilise in the coming weeks to ensure this is not a longer-term approach.

Despite the ongoing economic crisis in Turkey, characterised by a plummeting Lira, soaring inflation, and rising borrowing costs, the market presents directional opportunities while also increasing exposure to market risk. The lifting of the short sale ban in January 2025 (following its introduction in February 2023) led to a sharp uptick in borrower demand at competitive fees, which was encouraging for lenders. But the decline in the benchmark index following the arrest of an opposition leader on 23 March led the Capital Markets Board of Türkiye to impose a short sale ban until 25 April, which at present has been extended another month. If the political uncertainty improves, then we hope the ban is short-lived.

What is keeping your clients up at night and how does the RBCIS team help?

Kolasingh: Reducing costs while maintaining performance is always top of mind — but in today's environment, the added layer of an unpredictable global market has amplified concerns. Clients are anxious about a range of concerns, including unwelcome portfolio volatility, heightened risk management demands, revenue generation, the lack of a specials market, and an evolving tax and regulatory landscape. Each of these is converging to create an increasingly important need for data, and data accessibility, from beneficial owners. This is particularly true in periods of persistent volatility and unpredictability, such as now. Clients are ultimately seeking to mitigate risk, generate returns and fulfil their own client obligations — putting more pressure than ever on securities lending agents to deliver.

On one hand, increasing market volatility brings directional opportunities and new trade structures on which to capitalise; but on the other, evolving regulatory pressures and tax changes can make it trickier to navigate. In my eight years in the securities finance industry, the pace of change has increased exponentially. Large-scale regulatory shifts — like the Securities Financing Transactions Regulation (SFTR), once considered a once-in-a-decade regulatory change — now feel like part of an annual cycle.

"No longer a novelty to the securities lending arena, the rise of retail assets in the lendable pool continues to grow and can no longer be overlooked."

Kyle Kolasingh
Head, Market Services Solutions
RBC Investor Services

For beneficial owners, understanding the market dynamics they are lending in is key, and having access to in-region expertise is essential in today's environment. To help our clients, we not only leverage our position as Canada's largest bank but also rely on our global trading and execution desks in London and Singapore, and our support teams in Kuala Lumpur to ensure our clients are comfortable with the impact and pace of change across the industry.

Furthermore, we have embarked on a multi-year technology and operational modernisation of our architecture and processes to deliver smarter financing solutions and insights. This transformation — set to be completed this year — will enable us and our clients to benefit from higher automation rates, faster onboarding, and a future-proofed technology stack enabling faster response to regulatory and market changes. Our clients will also benefit from more frequent intraday data and reporting capabilities, and a higher degree of portfolio optimisation through the integration of performance data in our trading execution.

How do you assess the Canadian securities lending operational environment? How is it advancing, and what is weighing it down?

Kerry Phippen: The Canadian securities lending operational environment is advancing, but it is not without its challenges. Technology is a double-edged sword; when new capabilities are plugged into old legacy systems, marrying them together can be a challenge. Meanwhile, we all continue to face heightened cyber risk, shorter timelines, and increased regulation. We did a phenomenal job with T+1 in North America, but we now need to be thinking about T+1 globally. Efficient tracking and processing of corporate actions and income could be improved industry-wide. Proxy is another sensitive topic where securities lending is only one chapter in a fractured industry process.

Each of these areas can be supported by effective data use. We are in an environment where expectations are changing fast, including demand for accurate data in real time. Billing accuracy, timeliness, and STP is another area, although we do have post-trade tools to help. Lastly, we are still a people business, and attracting the right talent is key to our success. We are competing for employees who want to learn, work well under pressure, enjoy client service, understand risk, and embrace change. Securities lending remains a great place to connect the dots across all operational functions: we touch everything from onboarding to settlements, collateral management, corporate actions, risk, oversight, and fee billing.

RBCIS has been focusing on its technology upgrades and integration into its operating environment. How are your uses of data and technology evolving?

Phippen: A focus on technology upgrades and integration significantly

“We are in an environment where expectations are changing fast, including demand for accurate data in real time.”

Kerry Phippen
Head, Market Services Operations
RBC Investor Services

enhances operations and our use of data in several ways. This is where our securities lending modernisation plans come into full effect. As the market and the industry advances, we are ensuring we are prepared and one step ahead — whether it is integrating data in a smarter way or achieving a higher degree of STP. This ensures RBCIS is well-positioned for the future of our industry. Improved efficiency and data integration across the lifecycle support scalability, increased flexibility, and cost efficiency. We are predictive rather than reactive, with enhanced decision making and greater opportunities for innovation. We can manage sophisticated rules and schedules, supporting client flexibility, but maintaining standardisation from an operating model perspective.

To highlight the importance of data and integration, we have built a Business Intelligence Pod within our operations team, whose focus is to quickly translate our key data requirements into functional, real-time dashboards and reports. Examples include income tracking and productivity scorecards that deliver predictive analytics, providing actionable insights and performance monitoring. The pod gives us incredible flexibility to prioritise, pivot, and deliver solutions that enhance our operations and reduce risk.

As a member of CIMPA, how do you assess the securities finance and collateral management infrastructure in Canada?

Kolodziejczyk: The Collateral Infrastructure and Market Practices Advisory Group (CIMPA) has enhanced collaboration among various stakeholders to foster a more efficient ecosystem where standard market practices can be discussed and developed. This increased transparency and connectivity are leading to a more effectively functioning market. The strong collaboration across different sectors, supported by market infrastructure, can provide practical and innovative solutions for participants. As a result, we anticipate an improved operating environment, with reduced costs and complexity, enhanced liquidity, and new business opportunities emerging.

As co-head of securities finance, what are you focusing on in 2025 and 2026?

Barrand: Internally, we are focused on modernising our securities lending trading platform to replace multiple in-house legacy applications with a best-in-class SaaS solution that is modern, innovative, and functionality-rich. This initiative will deliver multiple enhancements across the business and revolutionise our global trading and operational capabilities, enhancing both the client and borrower experience. It will also enable us to meet various upcoming regulatory requirements, including T+1 in Asia and Europe, US SEC Rule 10c-1, the Bank of Canada mandatory fail fee, and Basel III Endgame.

Keeping up with evolving regulatory changes is a major priority, especially

> “Beneficial owners are striving for better returns and data transparency while our borrowers need automation and cost-effective accessibility to securities. ”

Chris Barrand
Co-head, Securities Finance
RBC Investor Services

in Europe and Asia, where proposed changes to market infrastructure can force change overnight. At RBCIS, we need to stay agile while working closely with our counterparts at the International Securities Lending Association (ISLA) and the Pan Asia Securities Lending Association (PASLA) to ensure we are well-positioned to navigate these challenges. Although T+1 has been successfully introduced in Canada and the US, it will naturally be a different challenge for Europe and the APAC region due to the increasing fragmentation of European politics and the lack of homogeneity across the APAC region. Both regions are less harmonised than North America given the variances in operational structures.

In Europe, the introduction of the Central Securities Depositories Regulation (CSDR) in 2022 removed a lot of legacy operational obstructions and encouraged participants to address ongoing settlement challenges. What is more, the introduction of vendor trade risk monitoring and recall management solutions have contributed to improving every touch point within each trade lifecycle, leading to better settlement efficiency. If we continue to see European countries simultaneously align to the proposed date of October 2027, the region should be able to accommodate the change without too much disruption. But in the APAC region, more may be required given the time zone difference, prefunding requirements and differing operating structures. Naturally, the move to T+1 will heighten the operational risk — therefore any complexities with current market infrastructures will need to be addressed ahead of the move.

What are some of the advantages of having such a diverse securities lending leadership team? What are the benefits of the different perspectives and areas of focus?

Kolodziejczyk: A leadership team with diverse backgrounds in securities lending brings numerous benefits that enhance an organisation's overall success and adaptability. By leveraging a wide range of skills and experiences, the RBCIS team can effectively manage and drive the business forward while navigating the changing operational landscape and risks. One of the primary advantages of a diverse team is how different viewpoints can facilitate efficient problem-solving, foster creativity, and help us to capitalize on nuanced trade structures across all regions.

Diverse leadership also strengthens risk management by bringing together a well-rounded understanding of regulatory, operational, financial and reputational risks tied to securities lending. We also benefit from 24/5 trading coverage across 34 markets, supported by teams in Toronto, London, and Singapore. By considering risks from multiple perspectives, our team is equipped to make better decisions, manage crises effectively, navigate complexities, and stay competitive through innovation and adaptability.

“The Canadian securities lending market is poised for significant revenue and portfolio optimisation opportunities.”

Arthur Kolodziejczyk
Co-head, Securities Finance
RBC Investor Services