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EquiLend's NGT:

A Case Study Shows Raised Expectations for Automated Trading, and the Value of the Network, in Securities Finance

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EquiLend's NGT (Next Generation Trading) platform is emerging as an important new trading platform in the securities finance markets. The hope is to usher in a new era of efficiency and improved straight-through processing (STP) as firms can trade their general collateral (GC) and warm and hot (special) loans all on one consolidated platform. This is an exciting opportunity for many firms, but also requires a collective commitment to NGT. The greatest success will come with large-scale adoption; the more firms on the network, the greater the benefits will be. With NGT at the early stages of adoption, Finadium conducted interviews with EquiLend and initial users to understand the value of the platform and determine what benefits may emerge as the network grows.

Why Create NGT?

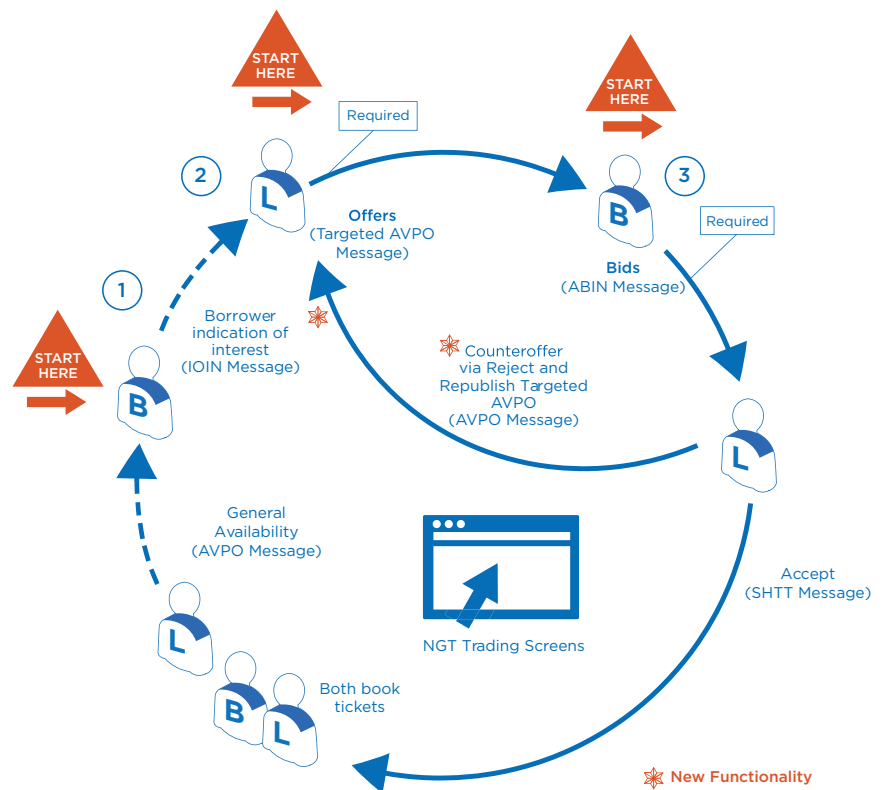
Securities finance is changing, and more firms than ever are looking at securities lending and repo as one and the same business line. Securities finance is crossing asset classes and agreement types to become an integrated business process. In response, in recent years, EquiLend has been evolving its automated securities finance trading platform offering with a focus on the client experience. Four main factors drove the creation of what became NGT:

1) **Leverage synergies.** According to EquiLend CEO Brian Lamb, customers use a number of systems to accomplish different workflows, including AutoBorrow, AutoBorrow Express, AutoBorrow With Bids, Trade2O and others. NGT incorporates key elements of all of these to achieve fully

automated as well as manual, person-to-person trading, all on one platform (see Exhibit 1).

2) **Transaction management.** Trading and operations in the day-to-day business of securities finance have undergone substantial changes since the financial crisis of 2008. Once built

Exhibit 1: NGT bid/offer workflow



Source: EquiLend

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around volume, the business today is driven by thin spreads, balances restricted by capital and credit and increasingly sophisticated investment and financing strategies. This has necessitated a hands-on, managed approach to warm and hard-to-borrow transactions. The mission is still to let the machines do as much as possible of the transaction flow that does not require high touch. As a result, the more business that can be successfully automated, the more attention can be paid to the greatest value-added trades.

3) **Globalization.** Securities finance processes have become more globalized, and EquiLend believed clients would benefit from changes in the platform to further automate, facilitate and support different market structures.

4) **Technology evolution.** Front-end systems and consumer technology have drastically changed since EquiLend first launched. Business users have higher expectations about how they interact with systems including features and capabilities, and less tolerance for limitations on what they can see and do.

EquiLend's NGT Development Process

These changing market dynamics influenced EquiLend's decision to reevaluate what they did and create a trading platform that suited a broad array of market needs all in one place. The objective was to not only reevaluate what they did, but also how they did it and how to improve the product and experience for clients. Arguably, EquiLend set a high bar for itself. Reengineering products and services that have been highly successful in the market raises expectations for users, which is always a risk. At the same time, asking customers to make changes in how they use a core system, both from the perspective of human users and their technology infrastructure, can also be difficult.



The creation of NGT occurred amidst EquiLend's enhanced focus on the market's evolving needs. Through organizational changes, market-facing and technical staffs have teamed up in new ways, and leveraging Agile methodology, ensure that EquiLend's product enhancement process is driven by its customers' needs and requirements. The goal of this realignment within EquiLend itself was to generate new thinking and innovation across the firm, both for the benefit of NGT and across all the company's products and services.

EquiLend has also increased engagement with customers, both one-on-one and with the broader industry. The company has reached out to the industry through an intensive and ongoing series of meetings, workshops and planning sessions across North America, Europe and Asia. For more than a year, as the NGT roadmap evolved, EquiLend hosted monthly "Developer Days," a peer-to-peer forum for their customers' and EquiLend's technology teams to get together on the nuts and bolts of the new platform.

The combination of a renewed focus

on innovation and customer outreach challenged some long-held technical and business assumptions. An important resulting change was to merge automated and manual trading activities into a single business process across multiple asset classes and markets. This required reevaluating the role of "schedules" (static rules-based trade matching/routing) in the AutoBorrow platform, as well as unifying the technical backbone between machine and human interfaces on the platform.

Like most big systems in capital markets, EquiLend formerly packaged enhancements and new features into large, quarterly, big-bang releases. NGT has taken advantage of EquiLend's new strategy to develop, test and deliver enhancements more rapidly, while keeping clients engaged along the way.

According to Lamb, NGT is fundamentally the genesis of EquiLend's new relationship with its customers. With NGT, EquiLend expects to set a new standard in automated securities finance trading for the next 14 years and beyond. Dow Veeranarong, global product owner for EquiLend, and Alvin Oh, product owner for Trading Services

at the organization, describe NGT as a platform that can “change the game” – but not alone. Veeranarong says NGT will provide traders the tools, the flexibility and the sophistication to negotiate and facilitate all of their trades. That includes not just GC, and not just the ones that fit into easily defined schedules. Taking advantage of the platform though requires customers to adopt new NGT features, and traders may need to change long-standing behaviors in how they do business to maximize benefits.

What Clients Are Saying

Following our conversations with EquiLend, Finadium spoke with representatives of five firms that have or will soon implement the NGT platform. Our interviews were conducted with executives from the US, Europe and Asia, and included senior management on the trading side of the business. We sought to answer the question: Is NGT really offering a new path for successful technology in securities finance, and why or why not?

The firms we interviewed were all large-scale players in securities finance markets who were either EquiLend owners or long-term and well-known users of EquiLend’s existing platforms. We asked the following questions:

1. What is valuable to you about NGT?
2. What are you worried about with NGT?
3. How do you think NGT will change your daily life?
4. Will NGT increase your revenues/decrease your costs?
5. Do you view NGT as a cost savings compared to your existing processes?
6. How does NGT fit into your future vision of securities finance, and how is it different?

Finadium wanted to determine whether users and potential users of NGT shared the same expectations of

the new platform as EquiLend, whether or not NGT was living up to their expectations after several months of live usage and what obstacles were either already present or on the horizon.

1. What is valuable to you about NGT?

The biggest value of NGT for users was in broad-based automation and efficiency throughout the trading process, and every respondent cited a version of this benefit. On the trading side, NGT was streamlining the process of locating stock through technology rather than by email, phone or other messaging systems, especially for warm and some hard-to-borrow names. According to EquiLend, NGT aims to make the inefficient, distributed process around locates centralized, flexible and much more efficient. The platform is standardizing counterparty codes and settlement instructions for all NGT participants, which removes operational overhead. The industry has been talking about increasing their amount of electronic trading for years; NGT is at last a mechanism to implement automation for all sorts of securities finance transactions. Perhaps the greatest value of NGT though is that it aligns the interests of borrowers and lenders to enhance operational efficiencies.

“NGT is meant for broad-based gains in efficiency. From trade execution onwards everything will be auto-matched. This will have a significant positive impact on operational efficiency.”

– John Shellard, Global Head of Trading, Agency Securities Lending, JP Morgan

2. What are you worried about with NGT?

The value of NGT is the network: the more firms that have the system installed, the more useful it is for everyone. The flip side is that if only a

few firms fully integrate NGT with their businesses, then the value for those participants goes down substantially. While some respondents thought that 90% of their volume would soon be on NGT, interviewees also mentioned concerns about how much other firms are committed and how many firms have the resources to invest not just in the technology, which was viewed as reasonably priced, but the supporting infrastructure and integration to optimize usage. It was expected that every participant would be running partially bespoke systems due to limited IT budgets, but that the more firms could integrate with NGT, the more successful everyone would be.

“My biggest concern is the upcoming divide between firms that are automated and firms that are semi-automated.”

– Securities finance executive, leading investment bank

The counterargument to not investing in the platform is the worry of being left behind. Users thought that NGT could differentiate the marketplace, with the natural inclination being to use NGT where possible because regardless of pricing, the operational efficiencies would be very substantial. This brings up an important point: what happens when a counterparty is not on NGT. It was expected that the entire industry would not adopt NGT, and our interviewees suggested that they would continue to do business with all borrowers and lenders. The difference is that counterparties on the NGT system might be preferenced in priority or in some cases might even get a better rate due to operational efficiencies. Rate differences would be a big incentive for all market participants to gain access to NGT, if only through a Web-based screen for inputting trade details. This is still largely theoretical though, and

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counterparties at both borrowers and lenders said that firms had not yet dedicated the resources to thinking through how to optimize NGT usage.

3. How do you think NGT will change your daily life?

The biggest actual, and hoped-for, change from NGT is more automated flow in trade negotiation. The idea is that NGT should reduce manual trading for non-GC names. Moving these trades to NGT, where one platform manages automated GC and warm flow as well as person-to-person trading for hotter securities, would be a big change for traders and would reduce operational breaks. With more automation for GC and warm names, interviewees said that they would have time to focus on the hardest-to-borrow names. It is too early to tell though if these benefits will fully materialize; much depends on how widely NGT gets adopted.

Interviewees noted that their desks now spend many hours in manual processing of trades that could be automated. Interviewees said that already they had been able to evaluate pricing and structure specific trades with counterparties to mutual advantage. This timesaving element was viewed as the most important new way that NGT will impact firms on a daily basis.

4. Will NGT increase your revenues/decrease your costs?

Interviewees were consistent in thinking that NGT should increase revenues in the short term. This is driven by more trader attention on the hardest-to-borrow names, and in the current interest rate environment, many warm names as well. While some interviewees expected costs to decrease in the long term due to settlement efficiency and the benefit of an audit trail, this was not seen as the reason to invest in NGT. Rather, NGT was viewed

as a tool to best utilize existing resources in trading and technology.

“While NGT is an initial investment towards new technology, it is also a commitment to improving existing and future infrastructure. This will lead to enhanced performance and should pay for itself.

– Jon Whiting, Managing Director, Head of Non-US Equity Product, State Street Securities Finance



5. Do you view NGT as a cost savings compared to your existing processes?

NGT was not viewed as a cost savings by its user base. In the short term, technology integration counted as an additional cost, but respondents thought that this cost would amortize out and benefit their firm every time a trade was auto-booked and settled using STP.

6. How does NGT fit into your future vision of securities finance, and how does it diverge?

NGT initial users were emphatic that NGT is the future of securities finance. Our interviewees cited mutual benefits to borrowers and lenders: borrowers can see a large percentage of their supply in one location with a realistic view of true availability, while lenders can publish inventory with pricing and get immediate feedback. The three tenets of NGT's benefits can be summed

up as 1) how do users see and manage inventory; 2) how do users see pricing and respond to it; and 3) how do users get the most access to supply and demand. While non-users may disagree, the automation and efficiency that NGT brings is clearly a well-embedded vision for its initial supporters.

“Automation goes hand in hand with how securities finance is moving.”

– Dan Awe, Head of US Fixed Income Trading & Strategist, Global Securities Lending, Northern Trust

The Importance of the Network

Technically and mechanically, NGT is working as advertised for the firms that have made the investment in integrating their systems. Firms with live counterparties have discovered that, in fact, the advertised automation works according to expectations; our interviewees say that they are already deriving real benefits from the new service. The next step is for these early adopters to encourage greater critical mass across the EquiLend community in order to see NGT meet its full potential.

In the end, both EquiLend and its users think that the efficiency gains from NGT are going to be bigger than anyone thinks. In an era of increased regulation and cost cutting, the ability to build greater efficiencies and STP into the securities finance process could have important repercussions both for individual users and the industry as a whole. The critical question remains in how much take-up NGT can garner. In order for everyone to succeed, the network must grow.

“The efficiency gains from NGT are going to be bigger than anyone thinks.”

– Securities finance executive, leading investment bank