

# Digital Vision for Securities Lending

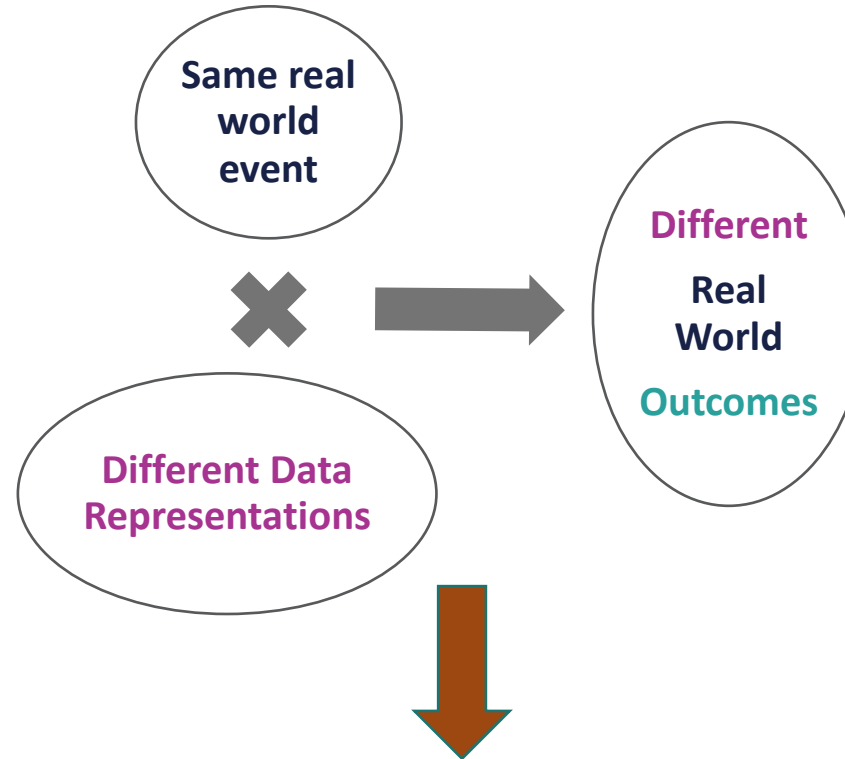
September 2020

Following on from the 'Agenda for Change' paper published in 2019, ISLA are taking steps to envision and execute on a digital roadmap for the securities lending Industry

- *A digital future necessitates a move to a more consistent approach to data, infrastructure and business outcomes*
- *A Common Domain Model (CDM) provides an open source, best in class, platform to achieve that*
- *Implementation of a CDM further supports adoption of Distributed Ledgers and Smart Contracts with their inherent benefits for the industry*
- *Consistent data models across asset classes and markets provide the opportunity to move to a closer markets union*

Differences in booking models lead to real world events in those models producing:

- Different outcomes
- Reconciliation breaks
- Valuation differences
- Collateral disputes
- Reporting mismatches
- Operational inefficiency



**What is the true "truth"?**

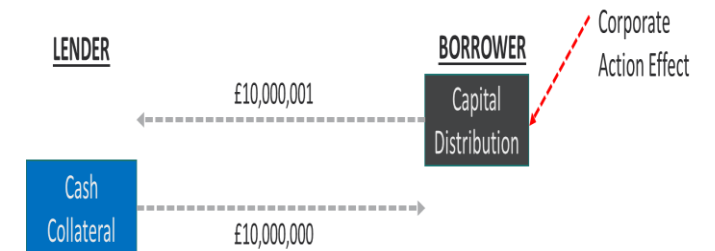
## Example Scenario

### Capital Distribution Event

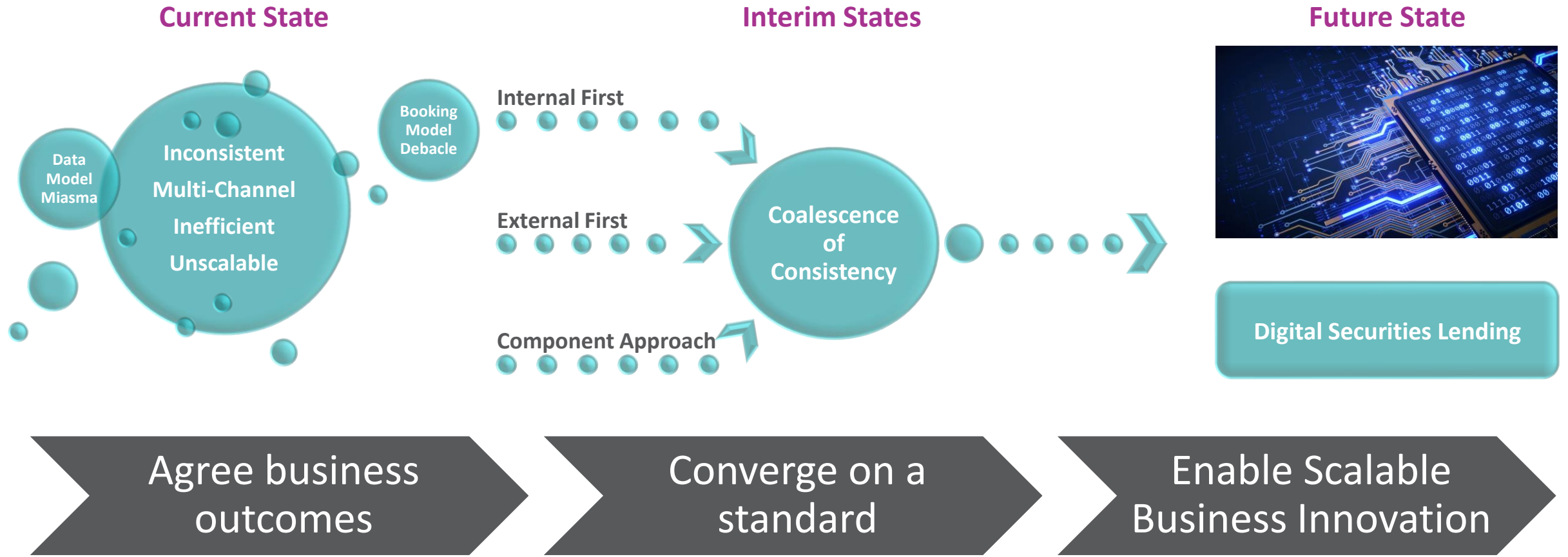
- Some parties net
- Some parties do not net
- Dependent on cashflow models, netting rules

Outcomes are an interaction between data representation and functional representations.

Data + Function = Domain Model



# Vision - Where Should We Be Going?



In order to compete in the digitized future the industry needs to find its way to consistency on the business fundamentals, from which, future innovation can spring, grow and adapt sustainably

## Consistency Depends on a Common Domain Model

Single, common digital representation of trade events and actions

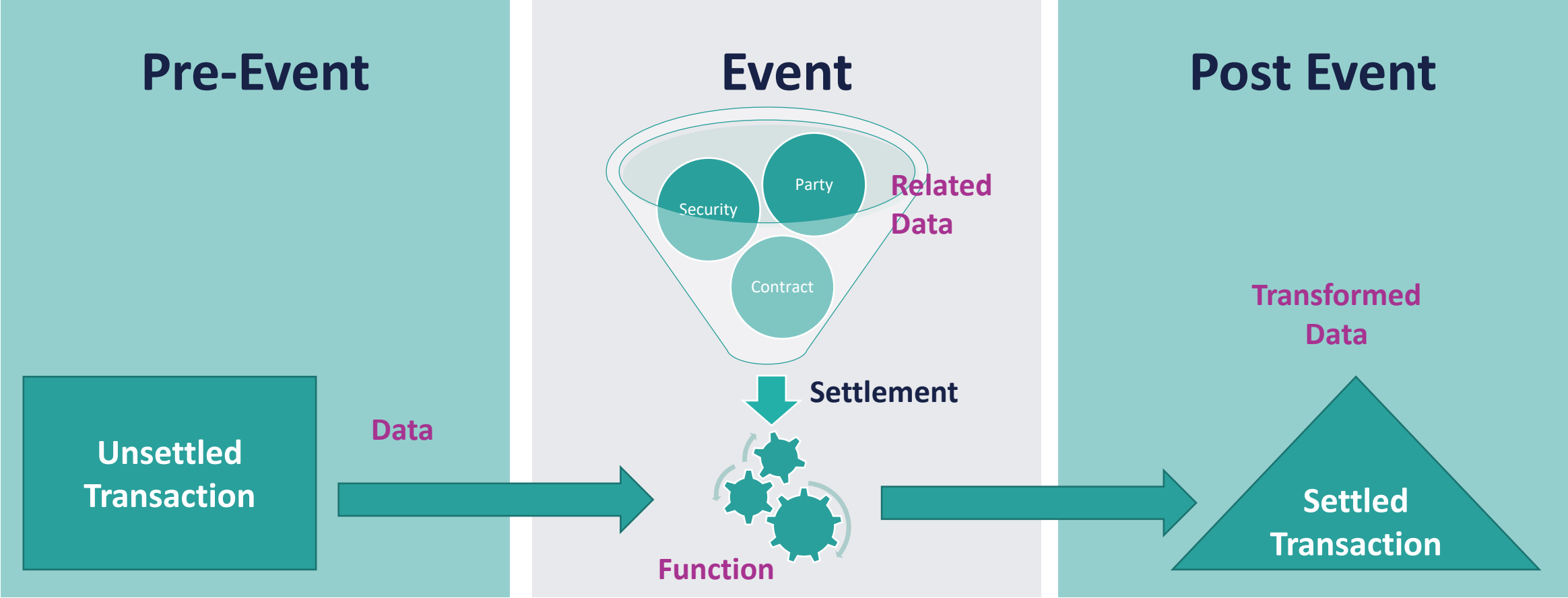
Enhance consistency and facilitate interoperability across firms and platforms

- There are six modelling dimensions to the CDM
  - Product
  - Event
  - Legal Agreement
  - Process
  - Reference Data
  - Mapping (Synonym)

Model design based on composability and reusability of all components

A CDM is not

- a specific application or product- it is the basis on which apps and products can be built
- just another data model- it also encodes the functional operations
- a smart contract or distributed ledger- though it will build the foundation for these



A CDM consistently codifies all of the pieces **(purple text)**

## Evolutionary Stages



	Phase 1 Items to Agree & Define	Phase 2 CDM Components to Develop	Phase 3 Platforms to Develop
Deliverables	Minimum KYC Standards	Pre-Contractual	Electronic Storage- SSIs, Party Data
	Clause Library	Contractual_Master Agreement	Document Negotiation & Execution
	CDM- Transaction Representations	Contractual_Loan	Loan Negotiation & Execution
	CDM- Legal Representations	Transactional	Default, Election & Termination Communication
	CDM- Event Representations	Settlement	Settlement & Collateral Management
	Best Practices across the lifecycle pillars	Lifecycle Events	Automated Cashflow and Event Processing

## What are we doing already?

- Best practice working groups
- Pilot projects: 1) Securities Lending CDM, 2) Clause Library Taxonomy; extending ISDA work for inter-asset class consistency
- Thought leadership - plotting the digital roadmap for securities lending

## What will we do in the future?

- Drive the digital agenda with our members
- Facilitate and oversee the defining CDM components especially contractual and transactional elements
- Assist industry in prioritising digital development, and lead the way with further projects

## What happens if we don't do this?

- Industry continues to be inefficient, margins continue to compress and business will be lost to new faster, smarter entrants who may not be as regulated



## Foundations of cross-market standardisation

- Collaboration with other associations means consistency across asset classes; composability of the model allows for fixed income and equity underlyings to be treated in similar ways
- Standardisation of data models can help drive market consistency, settlement standardisation and consistent post trade process flows
- Bedrock for supervisory convergence and financial stability

## Easier to regulate

- Standardised data models mean that regulation can be built on the data, potentially even instructed digitally, with less room for interpretation of rules
- Data can be pulled by regulators rather than being pushed by institutions- the same data can be extracted in the same way for every firm, providing more objective data for analysis

## Digital technology enablement - more secure, more transparent

- Enables true use of digital ledger technology, which carries benefits of greater transparency & security, reducing inter-firm reconciliation issues and therefore inherent financial risk to investors and firms