

Bringing Central Clearing to Securities Lending: Unlocking Efficiencies Across the Ecosystem

At Cboe Clear Europe, we've always been strong advocates for the transformative potential of central clearing. Beyond mitigating counterparty risk and improving post-trade workflows, the clearing model fosters trust, certainty and confidence across the financial system. Since the financial crisis, the promotion of clearing has been a central part of policy maker toolkits, to reduce counterparty risk and in doing so, laying the foundations for growth. By enabling firms to unlock capital efficiencies, it helps contribute to the broader development and expansion of capital markets activities.

Motivated by a commitment to innovation and belief in the positive impact of central clearing, we are always exploring ways to expand into new services and asset classes.

We put this vision into action over the last 18 months, by leveraging our post-trade, infrastructure and technology expertise to build a new clearing service for securities financing transactions (SFTs), covering European cash equities and ETFs—which completed its [first trades](#) last week.

The service, the only one of its kind, is focused on the securities lending and borrowing segment of Europe's SFT market, an area that has historically struggled with clearing adoption. We believe we're coming to market with the right model at the right time: By leveraging our position as the largest pan-European cash equities clearing house, and offering a comprehensive range of legal, risk, operational, and reporting solutions, we are delivering a groundbreaking service to meet an unprecedented level of industry demand.

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Bringing the benefits of central clearing to SFTs

While clearing mandates were introduced for many asset classes in the wake of the financial crisis, SFTs are not yet subject to such regulations. Instead, it is stricter bank capital requirements under the Basel III or Endgame reforms that led participants to come to us for a clearing solution. These rules will impose a higher (up to a maximum 100%) risk-weighted asset (RWA) capital charge on bilateral SFT transactions with “unrated” counterparties, a classification that applies to most UCITS funds and pension funds.

The [International Securities Lending Association \(ISLA\)](#), the industry’s trade association, has [highlighted](#) the unintended consequences of these reforms, noting their potential to “significantly reduce securities financing activity which in turn, may reduce market liquidity and drive-up costs for the buy side”.

We believe central clearing can address these secular capital constraints, as counterparties interact with a CCP rather than directly with each other, mutualising risk across the market. This helps to reduce counterparty risk and, in the case of Cboe Clear Europe’s new service, allows participants in SFT transactions to benefit from our much lower 2% risk weighting.

US banks and their European affiliates, active as either a borrower or as an agent lender indemnifying their beneficial owners against borrowers’ insolvency, are already facing RWA constraints and counterparty credit risk limitations, which our service can help mitigate today. The service not only unlocks significant capital efficiencies but also standardises, harmonises and simplifies many post-trade operations, including settlement, reporting and client onboarding. Furthermore, features such as our “special participant” category allows beneficial owner lenders—such as pension funds and UCITS—to become members of our CCP, without having to pay margin requirements or contribute to our default fund. This has many benefits, particularly for Agent Lenders, who would no longer be required to provide Agent Lender Disclosure files to Borrowers, significantly streamlining a previously labour-intensive process.

We’re also delivering margin and operational efficiencies by being part of Europe’s largest cash equities clearing house, enabling potential cost savings through cross-margining between cash equities and SFTs. The new service is initially covering equities and ETFs across 19 European markets, which are cleared by our existing European cash equity service.

Industry backing to build a more resilient lending ecosystem

In recognition of its huge potential, the service has garnered support from [major industry players](#)—including banks, asset managers, custodians—all committed to shaping a more capital-efficient and resilient securities lending ecosystem.

This is reflective of the critical role securities lending plays in global markets. The overall size of European equities and ETF balances that can be lent out is estimated at €2.3 trillion according to the [European Securities and Markets Authority \(ESMA\)](#), and our estimates indicate the addressable market for eligible European equities and ETFs as part of our initial launch is around €200bn. This vast market supports liquidity, funding and price efficiency while providing opportunities for asset owners to generate additional income by lending out their portfolios, improving returns for savers and retail investors. As intermediaries benefit from greater capital efficiencies, streamlined processes and reduced costs, the model also ensures resilience and stability during times of market stress, by minimising pro-cyclical pressures.

While our initial focus is on European cash equities and ETFs, the underlying technology is highly scalable and positions us to expand the service globally and into other asset classes. We’re already thinking about fixed income, other lendable assets and additional client jurisdictions in the next phase, leveraging Cboe’s extensive global footprint.

We believe this new ecosystem is setting the stage for transformative change across the lending eco-system, delivering meaningful benefits to borrowers, lenders, and intermediaries.