



The regulatory forces shaping securities lending

Market participants discuss the core factors pushing the securities finance industry forward in Europe, touching on Basel 3.1, T+1, and CCP clearing. As they take strides to support an evolving market, panellists review post-trade, digital assets, and the continued demand for HQLA

Panellists

Grant Mansfield, EMEA Head of Securities Finance Trading, **BNY**

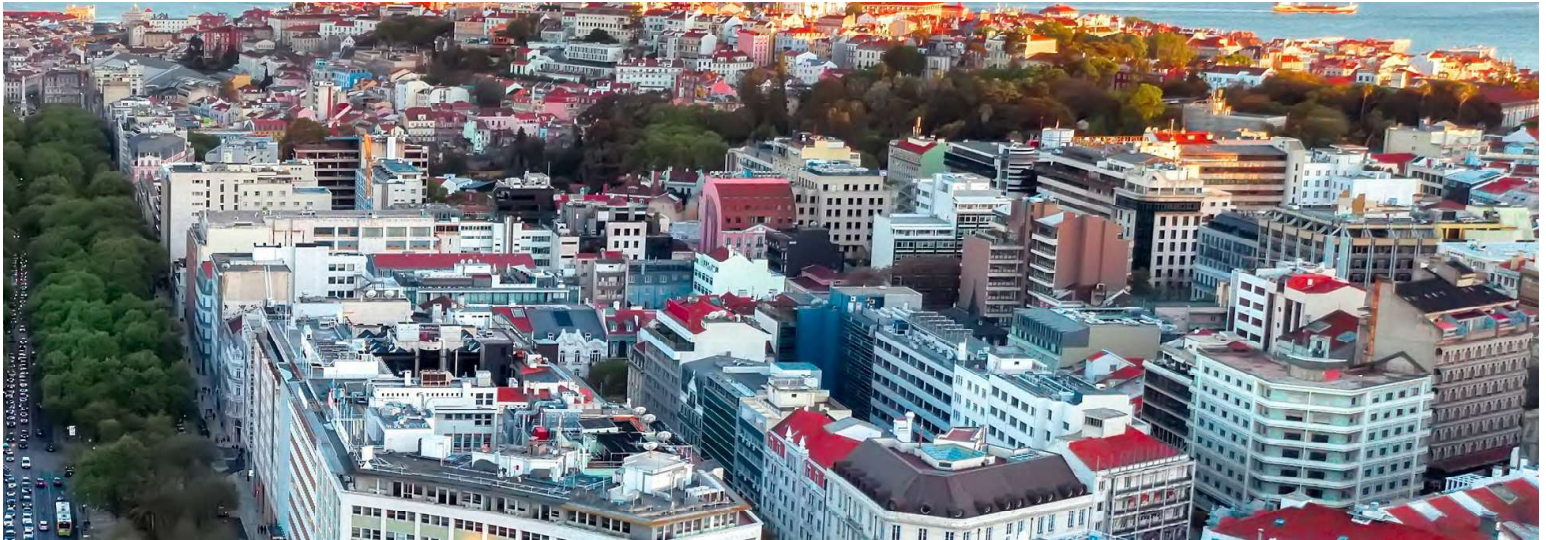
Adnan Hussain, Global Head of Securities Lending & Liquidity Services, **HSBC**

Jordan Howie, Buyside Trading Services Sales, **J.P. Morgan**

Rickie Smith, Head of EMEA Agency Securities Finance Product, **J.P. Morgan**

Raj Karan Singh, Managing Director, Head of Sales and Trading, EMEA, **Mirae Asset Securities UK**

Matthew Neville, Managing Director, Head of Agency Lending Trading, EMEA, **State Street**



How do you assess the performance of European securities lending markets over the past 12 months?

Grant Mansfield: Over the past 12 months, European securities lending performance has been mixed but improved as we moved into 2026. In equities, returns were initially constrained by weak fees and long-biased markets, but volatility, sector dispersion and event-driven activity helped revive specials demand. EMEA equity lending balances have recently reached record highs, supported by seasonal flows and increased shorting tied to macro uncertainty. In fixed income, gilt and European government bond (EGB) markets remained liquid and generally inexpensive, with limited specials, while emerging market (EM) debt saw stronger activity due to geopolitical developments. Corporate bonds were mostly liquid and cheap, though specific names continued to offer special value. Funding market conditions have also remained an important driver of government bond balances and fees.

Jordan Howie: Performance has been strong across the region through recent months with capital inflows, corporate event driven activity, and geopolitical driven volatility all influencing factors. The market has been defined less by a steady risk-off short bias, and more by episodic demand spikes tied to macro and event risk. Various geopolitical factors have kept markets prone to sharp, sentiment-driven moves, supporting short, tactical borrow demand rather than a broad-based structural build in shorts.

The European Central Bank's (ECB's) balance sheet normalisation has continued to drain excess liquidity and shift the system from collateral scarcity to greater availability, while banks' focus on high-quality liquid asset (HQLA) optimisation and liquidity metrics have reinforced demand for high-quality government collateral and upgrade-style trades. This has coincided with a larger, more active repo ecosystem (including growth in cleared/term activity) which in turn has supported securities finance liquidity and balance-sheet efficiency across the street.

On the equity side, performance has remained idiosyncratic and increasingly micro-driven, with outcomes determined increasingly by where positioning, timing, and mechanics intersect. Borrow demand has tended to cluster around corporate actions, dividend, and corporate event windows, sector rotations, and headline risk, creating short-lived specials that can reprice quickly and normalise just as fast. The market has rewarded certainty: reliable locate, clean settlement pathways, and the ability to hold risk through event dates have mattered as much as the headline fee, particularly when activity concentrates in a narrow set of names.

Adnan Hussain: The European securities lending market delivered a strong year, with equity revenues outpacing growth in lendable assets. Volatility — especially around the end of Q1 in both 2025 and 2026, amplified by tariff uncertainty, ongoing regional conflicts, and

EUROPEAN PANEL

higher rates — drove more concentrated, sector-led shorting, lifting demand, and fees in areas such as autos, rate-sensitive real estate, energy-intensive industrials, and select consumer names. Demand and interest in 'specials' were largely name and event-driven, with M&A adding further revenue opportunities. We also saw a brief upside in Türkiye as short selling restrictions were temporarily eased.

In European fixed income markets, demand strengthened for HQLA — particularly EGBs and gilts. As central bank liquidity receded and normalised, and with the implementation of Basel 3.1 standards in the EU, borrowers used securities lending more actively for funding and liquidity optimisation — including liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) — supporting collateral upgrade and balance sheet-driven trades. We saw programmes with deep HQLA inventories and flexible collateral schedules continue to deliver strong performance.

Raj Karan Singh: The securities finance market tends to have delayed negative correlation with markets itself, this has been very obvious this year. Names that are usually general collateral (GC) even in some very turbulent markets were heavily sold in the market especially by delta one desk, leading to a squeeze close to corporate actions. This would make the borrow levels rise and so for people who waited to lend their stock gained from better levels. It will however be interesting to see how the calming down of geopolitics will feed into this phenomena.

In which European markets, both by jurisdiction and asset class, do you identify the strongest opportunities for growth of your lending business?

Mansfield: We see the strongest growth opportunities in European securities lending across three areas. First, central counterparty (CCP) clearing, particularly through platforms such as Cboe Clear, is a major structural opportunity, increasing borrower capacity, improving risk management, and broadening market participation.

Second, higher-margin opportunities are emerging in under-penetrated markets such as Greece and parts of MENA, where

regulatory change and growing participation are supporting activity. Third, core developed equity markets including the UK, France, Italy, and Switzerland remain the largest and most scalable opportunities, driven by event activity, sector dispersion, and higher utilisation during volatile periods.

We also see growth in EMEA EM government bond lending, partly linked to oil price-related stress. More broadly, programme optimisation remains a key lever for increasing utilisation and revenue.

Hussain: Across Europe, we believe the strongest growth opportunities are in fixed income and equities.

Fixed income lenders are benefiting from increased demand for top-tier HQLA — particularly EGBs and gilts — from borrowers who are balance sheet and liquidity-constrained.

For lending in equities, we have seen the greatest demand for 'specials' with markets including France, Germany, and the Nordics attractive on the back of corporate actions and M&A. If volatility remains elevated and shorting stays sector and name-specific, lenders with deep inventory in the relevant, less liquid names are likely to benefit most.

Howie: The strongest growth opportunities tend to come from markets where structural change is widening participation and introducing securities finance to daily liquidity management — the Gulf Cooperation Council (GCC), and Saudi Arabia in particular, are therefore a key focal point.

The recent opening of the Saudi market to a broader set of foreign investors, alongside corresponding enhancements to the securities borrowing and lending framework, is a meaningful step in building a deeper, more 'complete' ecosystem where short selling, hedging, and market making can develop with greater confidence.

As market rules continue to evolve, the direction of travel is towards a scalable lending market supported by clearer participation

pathways and a framework that better accommodates modern trading and derivatives hedging behaviour. For a lending business, this combination of expanding access, improving market mechanics, and increasing two-way activity is likely to translate into durable opportunity across both equities and financing.

Across the Middle East more broadly, fixed income is also becoming a bigger part of the story: the continued development of GCC debt markets is expanding the investable and financeable universe, which matters for both collateral solutions and balance sheet-efficient funding trades.

Karan Singh: The markets to watch out for are the non-EU bond markets, as the yields in the EU space have gone from flat to unattractive, yields in Serbia, ex-CIS, and Albania seem to be responding better to oil prices, due to better relations with Russia and the Middle East. We expect funds to run EU versus non-EU pair trades as this is corrected in the second half of the year. In equities I see a continued shift to derivatives as a method of financing over traditional securities finance.

Matthew Neville: In Europe, we see selective growth opportunities emerging from market structure changes. Greece, for example, stands out following MSCI's decision to restore its developed market status from May 2027, which is expected to increase investor participation and securities lending activity.

Beyond Europe, borrowers and clients are increasingly seeking access to liquidity in the GCC region, particularly non-MSCI tracking equities in the Kingdom of Saudi Arabia, where strong demand is driving high lending fees.

As the region continues to open to international investors, the establishment of robust lending frameworks alongside enforceable netting regimes will further support securities financing opportunities. We are also seeing increased interest across Kuwait, United Arab Emirates, and Qatar as these markets continue to grow.

Additionally, demand for HQLA in term continues to present opportunities — particularly against equities and investment grade corporate bonds — especially for clients with flexible lending parameters and low-risk weighted profiles.

What pressures and opportunities have recent regulatory initiatives created for your securities lending business?

Mansfield: Recent regulatory initiatives have created both constraints and opportunities for the securities lending business. Some rules continue to limit supply, particularly within EU-regulated funds, which represent a significant share of European equity inventory but a much smaller share of actual lending activity. However, the direction of travel is encouraging. Industry engagement, including the International Securities Lending Association's (ISLA's) work with the European Securities and Markets Authority (ESMA), is helping advocate for practical changes such as extending counterparty credit risk (CCR) terms beyond one week and increasing lending and collateral limits. In Spain, the removal of restrictions on Spanish undertakings for collective investment in transferable securities (UCITS) participating in lending is another positive step.

Neville: Our agency securities lending platform has long focused on solutions that help minimise regulatory capital. Borrowers are increasingly focused on transacting with lenders who can accept collateral under the Global Master Securities Lending Agreement (GMSLA) pledge structure or are low risk-weight entities. Clearing solutions are also gaining traction, as they allow borrowers to face higher risk-weight lending clients sponsored via a CCP structure at significantly reduced risk weights — often around two per cent compared to up to 100 per cent in bilateral setups.

Innovations such as custody margining are designed to reduce borrower risk-weighted assets (RWA) — potentially to zero — by providing a security interest over securities pledged back by the lending client. These solutions make participating lenders more

attractive to borrowers, potentially resulting in higher utilisation and overall returns.

Mandatory clearing rules are accelerating demand for cleared repo from European and Middle East institutions, creating both complexity and opportunity, and driving innovation in the form of new access models. We are focused on helping our clients in the region navigate the US Securities and Exchange Commission's (SEC's) mandatory US clearing requirements, which are set to take effect for repo transactions by 30 June 2027.

Additionally, we launched our Eurex ISA Direct Light product in January, enabling clients to clear EGBs, simplifying buy side access to the euro-denominated repo market by allowing clients to directly clear reverse repo transactions using a centrally-cleared counterparty.

Rickie Smith: Regulatory initiatives are fundamentally reshaping securities lending economics and market structure. The continued evolution of prudential capital frameworks is increasing the cost of balance sheet usage, which is driving a more deliberate allocation of capacity across counterparties, products, and transaction types. At the same time, settlement discipline regimes and post-trade reforms are raising the cost of inefficiency, particularly around settlement performance and lifecycle events.

From an opportunity perspective, this is accelerating a shift towards higher quality, more structured activity. Markets are increasingly favouring centrally-cleared or bilateral capital-efficient structures, supported by stronger collateral frameworks and improved transparency. In this environment, agent lenders that can combine balance sheet efficiency with strong operational delivery are becoming core facilitators of market liquidity.

Karan Singh: Regulation in Europe rarely creates opportunities, it is entirely based on reducing cost and pressure. If you are not subject to such regulation, you could benefit from selling the benefit side to the cost that affects banks and institutions in Europe.

Hussain: Basel 3.1 and higher capital and liquidity requirements have led borrowers to be far more selective about balance sheet usage and securities lending economics. Borrowers are increasingly focused on RWA efficiency, collateral diversification, and enhancing their ability to meet key liquidity metrics such as LCR and NSFR. As a result, we have seen growing demand for tailored financing solutions, including diversified collateral programmes, term lending, pledge structures, reverse repo, and broader balance sheet optimisation trades. This is likely to continue creating new opportunities for lenders to broaden and adapt their programmes to meet the evolving needs of the market.

At the same time, regulatory and market structure changes are raising the bar for operational resilience. Securities Financing Transactions Regulation (SFTR) reporting has highlighted the cost and risk of fragmented data, trade breaks, and late or inaccurate submissions — creating a differentiation among securities services providers who can deliver clean reporting, reconciliations, and actionable dashboards that can be integrated with client ecosystems.

Settlement discipline reforms, including the EU's Central Securities Depositories Regulation (CSDR) cash penalties and the move to T+1 in multiple markets, are compressing timelines and increasing fails risk, which may reduce lendable supply and market liquidity. We believe clients will increasingly favour securities lending agents and custodians who automate recalls and returns, strengthen pre-trade settlement risk controls, and provide real-time inventory and settlement-safe lending capabilities.

How are firms preparing for the transition to T+1 settlement in the UK and Europe, and what implications could shorter settlement cycles have for securities lending activity, collateral management, and market liquidity?

Smith: Firms are approaching T+1 as a full value chain redesign rather than a post-trade adjustment. The focus is on aligning trading, lending, custody, and settlement processes to operate effectively within a compressed timeframe. Preparation is centred on increasing

automation, improving data timeliness, and enhancing coordination across counterparties. There is particular emphasis on ensuring that issues are identified and resolved on trade date, rather than carried into settlement.

For securities lending, this translates into a need for more structured and responsive recall and return processes, alongside stronger operational alignment across the lending chain. The most immediate implication of T+1 for securities lending is the compression of lifecycle events, particularly recalls, returns, and substitutions. The timeline between a sale instruction and required settlement is materially reduced, leaving limited room for operational delay. To address this, firms are focusing on i) standardised recall workflows; ii) earlier client and borrower communication; iii) clearer cut-off windows and a greater reliance on pre-matching and automation.

Hussain: The move to T+1 settlement is likely to be more complex in the UK and Europe than it was in the US, given Europe's fragmented market structure, differing cut-off times, and multiple settlement jurisdictions. As a result, agent lenders are increasing their focus on operational efficiency — automating recalls and partial settlement, tightening recall timelines, and encouraging earlier client pre-notification of sales, to remain competitive for beneficial owners in lending programmes. Compressed timelines also narrow the window for funding and collateral posting, accelerating the need to streamline and automate end-to-end workflows. Over time, we expect T+1 to drive stronger market discipline around recall settlement and improve overall market efficiency in the long term, which will aid market liquidity needs.

Singh: T+1 in Europe will add a lot of operational burden to our day-to-day trading activity. We still need to understand how this will actively impact buy-in rules, but we can see some funds pulling out of lending completely as their risk appetite for fails is reduced.

We expect CSDR charges to become a major issue in terms of disputes between counterparties. The UK being a dumping market is theoretically more poised to receive T+1, but this requires a deeper

understanding of crest which, in our experience, is not strong in mainland Europe.

Neville: T+1 settlement places significant pressure on market participants to streamline their pre and post-trade workflows — shortening their pre-matching, matching, and settlement processes ahead of the 11 October 2027 regulatory go-live.

State Street, alongside our peers, counterparties, and vendors, has been actively engaged in industry working groups, such as those led by ISLA and the Federation of European Securities Exchanges (FESE), as well as bilateral discussions with borrowers and service providers to ensure workflows are optimised and liquidity remains unaffected.

From a trade execution perspective, we expect borrowers to increase their T+0 trading activity to meet the demand generated the previous day. Lenders, such as State Street via our Agency Lending Borrower Portal, can publish real-time inventory, providing borrowers greater certainty of execution. We also anticipate more frequent updates to availability files distributed via vendor platforms. Additionally, lenders with flexible operating models are likely to expand execution windows, enabling borrowers to transact earlier in the trading day.

On the post-trade side, lenders who invest in vendor functionality enabling frequent recycling of required values (RQVs) to triparty agents stand to benefit from faster collateralisation and subsequent auto-loan release, ensuring instructions reach the market more efficiently. Similarly, routing recalls and returns through vendors can expedite processing and settlement.

However, there is a risk that market participants who are unable to facilitate substitutions efficiently could restrict liquidity or increase buffers to mitigate the risk of increased settlement fails. Ultimately, firms investing in technology and workflow automation are better positioned to benefit from increased demand, as the cost of operational inefficiencies continue to rise.

Mansfield: Firms are preparing for T+1 by accelerating automation, tightening cut-offs and reviewing operating models across settlement, recalls, and collateral workflows. Shorter timelines increase the risk of settlement fails, collateral shortfalls, and operational friction, particularly where manual processes remain. Readiness will depend on stronger straight-through processing (STP), recall automation, borrower preparedness, and close alignment with clients, custodians, and market infrastructure.

T+1 may also increase intraday liquidity demands if parts of the repo market move toward same-day settlement. In addition, compressed timelines create added complexity for corporate actions, income processing, and partial settlements. Overall, T+1 should improve market efficiency over time, but in the near term it will require significant operational change and greater discipline across the trade lifecycle.

How do you expect digital assets, tokenisation, or distributed ledger technology to impact securities lending over the longer term?

Neville: Tokenised collateral could reduce both capital and credit exposures by enabling delivery-versus-delivery (DvD) settlement, eliminating the need for prepayments, and increasing market operating hours toward a 24/7 model. It also enables more seamless, book-entry movement of tokenised collateral between triparty agents and counterparties, removing the need to move the physical assets through traditional workflows and improving operational efficiency.

In theory, in the long-term, distributed ledger technology (DLT) should enable real-time settlement, no fails and no breaks, as the digital ledger will be the golden source of truth.

While there are already examples of tokenised activity emerging in the market, adoption remains limited to a small number of participants. Broader industry progress will ultimately depend on meaningful increase in demand and scale.

Hussain: Over the longer term, the biggest impact of tokenisation in securities lending will be on collateral mobility and settlement efficiency.

At a market level, tokenised collateral could support liquidity efficiency by enabling near real-time movement. If collateral can be circulated faster and more predictably, it is less likely to sit idle on balance sheets — reducing funding and balance sheet drag for bank treasury functions and improving overall market efficiency.

From an agency lending perspective, the case strengthens as Europe moves towards T+1 and as CSDR continues to sharpen the focus on settlement discipline. Faster, more automated collateral workflows help reduce securities lending fails risk, shorten settlement cycles, and lower operational friction. Tokenisation of collateral has the potential to make the post-trade plumbing more operationally efficient for securities finance.

Mansfield: We believe the long-term impact to the future of securities finance will be an always-on, 24/7 trading world, with time-zone barriers removed, unlocking hard-to transact assets (commodities, funds, trapped locations) while also bringing new digitally native asset classes (stablecoins, CBDC, digital bonds) into the market.

From a trade lifecycle, the potential upside of digital ledgers creating immutable records could remove significant post-trade friction, eliminating billing breaks, contract reconciliations, and disputes in coupon and dividend distributions.

Digital assets and ledger technology will likely lead new entrants into the securities finance industry, not just in the vendor space, but new participants offering niche solutions to a new generation of asset owners and new demand side players.

Karan Singh: Tokenisation has a potential to impact private markets in the long term, which in theory can be lent. However, the rules for margining and buy-ins are not well agreed upon. DLT has the potential to impact the repo market by reducing reliance on

traditional banks to move large amounts of cash, but it will remain the domain of the large banks.

How are geopolitical and macroeconomic events shaping your business decisions? How do you see these changes shaping the securities finance market overall?

Karan Singh: Such events impact everything we do and any desk that operates outside it is either not optimising their positions or simply missing the ability to do so. This year the number of recalls were some of the highest since Covid, however, this was foreseeable if macroeconomics was taken into account while book building.

Mansfield: Geopolitical and macroeconomic events are playing a bigger role in securities finance by driving volatility, dispersion, and shifting borrower demand. Periods of uncertainty tend to increase shorting activity, utilisation, and specials demand, although revenues become more episodic and event-driven.

Inflation and changing central bank expectations have also disrupted rate-cutting paths, delaying some of the benefits typically seen in open cash reinvestment spreads. At the same time, market stress can create higher balances and uncover opportunities in previously underutilised markets and assets.

These dynamics are increasing the importance of risk management, collateral optimisation, CCP clearing, and operational resilience. Overall, the market is becoming more dynamic and infrastructure-led, with success increasingly dependent on the ability to mobilise assets efficiently and respond quickly to changing conditions.

Hussain: Geopolitical and macro events are embedded into how we run our agency lending programme — particularly as it relates to collateral, liquidity, and risk appetite. In periods of heightened uncertainty, we focus on maintaining high-quality, resilient collateral profiles that still give borrowers enough optionality, while being

prepared to adjust haircuts and eligibility as volatility and correlation risks rise.

From a trading perspective, we are more deliberate about pricing and managing wrong-way risk that may arise. We keep a close eye on tenor discipline to ensure term commitments remain appropriate as funding conditions and market liquidity can reprice quickly.

Howie: Since late February, geopolitical instability has materially increased energy and commodity price volatility, reinforcing a higher-correlation risk backdrop and making borrow fee moves sharper and more episodic.

In response, placing a premium on a diversified securities finance toolkit, and balancing event-driven equity borrow with resilient collateral and financing-led activity, facilitates an efficient pivot as demand rotates.

At the same time, central bank balance sheet normalisation is steadily shifting the system toward more market-mediated liquidity, with repo and term dynamics increasingly reflecting real-time funding demand and balance sheet optimisation.

The implication for securities finance is a market that is more price-sensitive and more cross-asset, where returns are increasingly driven by the interaction between liquidity, collateral quality, and execution certainty, rather than a single, persistent directional short theme.

Neville: From a macro and geopolitical standpoint, we are seeing a greater emphasis on resilience, diversification, and balance sheet efficiency across the industry. In that context, we continue to invest in building tools and solutions that ensure our clients remain attractive to borrowers while optimising capital footprint across agented, principal, cleared, sponsored, or peer-to-peer models.

Additionally, rising geopolitical risks, particularly the increase in cyber

threats, are reinforcing the need to avoid reliance on a single vendor. To bolster operational resilience, we have built tools to interact with our clients and counterparties directly.

Our Agency Lending Borrower portal gives borrowers access to our supply directly through FIX or REST API, and our proprietary trading and operations infrastructure. Both represent multi-year commitments that deliver significant value to clients on our platform.

How do you assess the outlook for European securities lending markets for the next 12 months?

Hussain: As European markets move closer to Basel 3.1 compliance, the year ahead is likely to be shaped by familiar dynamics in EGBs and funding: rising borrower demand for balance sheet optimisation and a sustained lending premium for access to HQLA. In this environment, securities lending agents are evolving from 'inventory intermediaries' into liquidity providers — deploying high-quality collateral and term funding solutions on behalf of lending clients to help borrowers meet increasingly regulation-driven needs.

Geopolitics are difficult to predict; if macro uncertainty persists, volatility is likely to remain elevated — particularly in European equities. We expect activity to be on par with what we have seen this past year, with sector-specific shorting as opposed to broad-based directional positioning. Lenders could see a more active 'specials' environment and enhanced securities lending returns.

Additionally, we will be watching how market-specific developments play out, particularly with the MSCI Greece Indexes being reclassified from emerging market to developed market status, as well as the direction of travel for short selling restrictions in Türkiye.

Karan Singh: Volatile but calmer than last year. We are also hoping some large lenders come back to the market, which will improve access for the borrowers.

Mansfield: The outlook for European securities lending over the next

12 months is broadly positive. We expect balances to remain elevated, supported by volatility, sector dispersion, and event-driven demand, although revenues are still likely to be episodic and shaped by macro conditions rather than structural short demand.

Markets should remain liquid, particularly in HQLA, even if the expected rate-cutting cycle pauses or reverses temporarily. We also expect continued stress in some emerging markets and parts of credit, driven by ongoing geopolitical uncertainty, including the crises in Ukraine and Iran.

At the same time, structural developments such as CCP clearing, programme optimisation, and the transition to T+1 should support incremental growth and improve market efficiency over the medium term.

Howie: The outlook for European securities lending looks constructive. Market risk conditions remain elevated, with the potential for sharp price swings and higher cross asset contagion during geopolitical stress, which tends to translate into bursts of idiosyncratic borrow demand rather than a single, persistent directional short theme. Consistent with that, the market has shown stronger momentum in EMEA equities versus prior year, suggesting the region is entering this period with healthier underlying activity.

Where the market looks most durable is the plumbing that sits underneath: funding, collateral transformation, and balance sheet efficiency. The ECB's balance sheet normalisation is continuing to reduce reserves and push liquidity distribution back into money markets, with banks expected to rely more actively on repo and related funding channels as more institutions approach preferred reserve levels over 2026.

That backdrop supports steady demand for high-quality collateral and efficient financing structures, reinforced by an expanding and increasingly important European repo ecosystem as participants manage collateral mobility, term premia, and balance sheet constraints. ■