Perspectives on Securities Lending and the Canadian Market

Kyle Kolasingh, Head of Market Services Solutions at RBC Investor & Treasury Services.

What is driving growth in the Canadian market?
We continue to see growth in the fixed income segment with a particular emphasis on sovereign debt, as well as pockets of demand for corporate debt. As interest rates continue to rise, the pressure on corporate bond yields, which we noted in 2022, continues. This has resulted in increased borrower demand, not only in the domestic market but also in the European zone where a fast-paced rising interest rate environment has had a similar effect. We are still seeing stable opportunities in demand for sovereign debt—both on open and term with durations of up to 95 days. While demand for Canadian provincial bonds tends to fluctuate, the stable increase in Canadian sovereign debt demand continues to prove favourable for beneficial owners, with collateral optimisation and upgrade trading at the forefront of demand drivers.

Canadian equity markets have seen positive quarter-over-quarter returns with the re-emergence of Canadian cannabis specials, albeit with some fluctuations in rates. Corporate action optimisation opportunities continue to drive significant revenue opportunities for beneficial holders as five of the six major Canadian banks now offer discounted dividend reinvestment programs, presenting optionality lending opportunities.

What are the latest regulatory changes in Canada and what areas are impacted in the industry?
The impending shift to T+1 and the potential implementation of a "fails regime" on Bank of Canada government securities—both scheduled for implementation in 2024—remain top of mind.

With the recent announcement of T+1 implementation dates of May 27, 2024 for Canada and May 28, 2024 for the United States, the race is now on to adjust and adapt to the shorter settlement timeframe. Similar to the recent implementation of the Central Securities Depositories Regulation (CSDR) in Europe, we expect T+1 to drive significant technology enhancements into the securities lending value chain, as well as more efficient execution and settlement behaviour across the market.

Changes to processes, systems and behaviour patterns will be required by all participating stakeholders, including agent lenders, borrowers and beneficial owners alike. While this may be challenging to implement in a matter of 12 months, the resulting benefits will be substantial. Improved trade submission, recall management and security returns will only add to the sustainability of the financing market and its importance as a source of liquidity to the capital market system.

What are some current market conditions or events and their impact that you would like to shed some light on?
For the fourth year in a row, the first quarter has been marred by market turbulence. Over the past six weeks, we have seen the so-called "banking crisis" take shape and roil markets, which already had an undertow of volatility. While the focus has been predominantly on US regional banks, there have been wider-ranging implications at home and abroad.

The impact on securities lending participants is three-fold: Counterparty management, collateral management

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and inventory. Starting with the latter, we saw the likes of Silicon Valley Bank and Signature Bank New York shut down by federal authorities and subsequently suspended from their exchanges, while Credit Suisse persisted in the headlines. The immediate nature of this crisis required fast and nimble action to ensure that exposures were limited. Not unlike the meme stock craze and the Ukrainian-Russian conflict, robust risk management frameworks have been invaluable as periods of uncertainty are never one-sided. That said, such periods also bring opportunity, and the banking crisis is no different.

For a brief time, the situation led to a new sector of equities in the spotlight, resulting in rising demand to borrow US banking stocks and subsequently offering lending opportunities for beneficial owners. Timely and ongoing communication between agent lenders and beneficial owners have been equally important—from a risk management lens and due to the need for lenders to understand the risk/reward trade-off. This is an aspect of RBC Investor & Treasury Service' lending program of which we are particularly proud—ensuring that our beneficial owners remain well-informed, reassured and aware of how market conditions are impacting their securities lending program.

On an industry-related note, the Global Alliance of Securities Lending Associations (GASLA) released an update to the Global Framework for ESG and Securities Lending (GFESL) in early March, providing market participants with an enhanced framework to consider the integration of ESG policies within their securities lending programs. GFESL focuses on five main areas where securities finance and ESG intersect—voting rights, collateral, lending over record dates, participation in the short side of the market and transparency. As the Coordinator for the Canadian Securities Lending Association and a member of the GASLA forum, I consider the Framework to be a significant contribution to furthering securities lending and ESG best practices for all stakeholders in the value chain. ■

Kyle Kolasingh oversees lender management for RBC Investor & Treasury Services' (RBC I&TS') Securities Finance program and leads the Market Services Solutions team — a cross-product technical sales and relationship management team covering securities lending, foreign exchange and cash management products.

He has been with RBC I&TS since 2010 and previously worked for RBC Financial Caribbean. Over the past 12 years, Kyle has held various positions, including Corporate Actions and Entitlements, Risk & Investment Analytics and Proposal Management. In 2016, Kyle joined the Securities Finance team. Based in Toronto, he works closely with beneficial owners and internal partners in the providing securities financing products and solutions to the bank's clients and prospective clients.

Kyle is also a member of the executive team of the Canadian Securities Lending Association and represents the association at the Global Alliance of Securities Lending Associations.

He holds a Bachelor of Administrative Studies with Honours in Finance from York University.