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Expanding the toolkit

Harris Bock, CEO of Dynamex Trading, Brandon Neer, co-founder of Delta One, and Jason Lefkowitz, Dynamex VP and Delta One co-founder, talk about bringing transparency to the stock lending marketplace and the need to maintain human interaction

Tell us a little about Dynamex.

Jason Lefkowitz: Dynamex is a US-based agency only broker-dealer that specialises in equity, exchange-traded funds and index options trading. Specifically, we specialise in the trading of conversions, the listed options proxy for a stock loan transaction. Our high-touch brokerage services include hard-to-borrow trading, corporate actions, and balance sheet optimisation trades. Our client base is fairly diverse and includes many different types of firms including asset managers, market makers, family offices, agent lenders, prime brokers, and investment banks. Our footprint in the market is significant. A recent analysis of an active corporate action situation showed that we were 18 percent of all volume that traded across every exchange.

As a small firm, we are adaptable to changing market conditions and always at the forefront of innovation while constantly growing and protecting our clients and their trading needs.

Dynamex launched the equity finance marketplace Delta One in July of this year, how has it gone?

Lefkowitz: We have been getting overwhelmingly positive feedback on the platform and the improvement to workflows that it allows. On the first day following our wide release, we had over \$3.4 billion worth of conversion and reversal interests in the system available for matching. Our near term goals in driving user engagement that centres around taking feedback from users to add new features to the platform that people find useful and help facilitate the matching of trade interests.

Is it only accessible for Dynamex clients or the whole of the wider market?

Brandon Neer: Delta One is only accessible to Dynamex Clients, but Dynamex deals with clients in every market segment. Beneficial holders, agent lenders, hedge funds, and investment banks are among our clients.

The Dynamex footprint in the industry is substantial and lines up nicely with the target user base for the Delta One platform. The goal from our first day of operation was to create a counterparty-neutral, open and transparent marketplace that would be available to all market players.

Do you see yourself as competing with platforms or complementary? Who are your target users?

Neer: Delta One's goal is to enhance traditional stock loan channels, not replace them. It gives investors access to rates that might not otherwise be available through traditional channels. The modern equity finance landscape is a tapestry of disparate markets that can be used to augment traditional channels for lending equities. Options, repo, swaps and futures can and should be part of every equity finance trader's toolbox to complement direct lending.

The options market is the oldest, and arguably the most complex of these alternatives. It's also by far the biggest. As of 8 October, there was \$2.3 trillion notional outstanding in equity options alone in the US; ignoring this market seems crazy to us. Yet in 2019, we think the majority of stock loan players do not have adequate visibility or ability to trade options. Our goal is to change that.

Delta One was created to reduce the complexity of the options market as it pertains to stock loan participants. The platform allows for various levels of options trading knowledge, and the technology was created to help bridge the gap to investors who could benefit from trading borrows through options but might not be comfortable doing so on their own. To that end, Dynamex has the expertise and is willing to lend it to their clients.

As far as target users, Delta One was designed to benefit all levels of the stock loan market, from the small family office that seeks to improve their finance rates to the multinational money centre banks that want to provide their clients access to borrows and rates that might not otherwise be available.

Although we have users all around the world, we are only offering the platform for trading in US markets at this time. However, as we are perfecting the model here, we think the next natural step will be to scale into Europe and then Asia. The demand for transparency and liquidity in securities lending seems universal across the globe.

With balance sheet optimisation so critical in today's market, where does Delta One fit in?

Neer: There are two primary use cases for Delta One: stock lending and balance sheet management. Often the two use cases intersect. We see stock lenders and borrowers pair off regularly against balance sheet managers. Delta One was created to serve that need. People have used options to manage their balance sheet for a long time, but it has never been easy. Delta One assembles all the relevant information, displays it in a user-friendly interface, and allows participants to find matching interests that best suits their needs.

Whereas most systems aim to remove and replace humans, you want a human layer of protection between users and the marketplace, why is this?

Harris Bock: There are a few reasons for this. The first being that many current stock loan market participants do not trade options. Our team has a combined 50 years of experience trading options and we want to make people as comfortable as possible with the product. I think having humans involved with real experience is the only way to do this.

Secondly, existing low-touch matching solutions for these types of trades are fairly unforgiving. A single keystroke error can cause massive, instantaneous losses which is why I think those solutions have failed in the past. We don't see a lot of people that want that type of risk in exchange for faster match to tape executions. The time lag isn't an issue in this type of product. The human layer protects users from making unintentional mistakes.

Lastly, the equity finance marketplace is fragmented across many different instruments. Swaps, futures, options, repo, and direct lending can all be used to accomplish the same thing. The human check helps to prevent against over-executing across different markets. If times change and people seem comfortable removing this aspect of the system, that is something we can change in the future as Delta One evolves.

How do you see the platform developing over the next five years?

Bock: As a start-up, we are extremely nimble in how and where we can develop. Ultimately, we will listen to our users to guide platform development and product mix. Delta One already contains an extremely robust trade repository that includes most every execution relating to securities lending in the options space since the beginning of 2018, but we plan to enhance this to include other asset classes over time.

We have added numerous features to the platform that users requested during our 18-month beta testing period, and continue to take feedback as more users join the platform. Right now we see the most demand in listed options, but we are certainly not restricted from adding other instruments. We will continue to listen to our users and are willing and able to add other products as we see fit, but in our minds, the next logical step would be to incorporate total return swaps. As technology advances in general, we also hope to make enhancements and user interface improvements to improve the workflow even further.

How important is transparency to Delta One's offering?

Bock: The transparency available in Delta One is real-time. We are not a dark pool, all users receive information equally and at the same time. Delta One provides real-time information on actionable trade interests. A client can identify a better rate in the system and act upon it. Paired interests print to exchanges that disseminate trade information in real-time. Both sides of every transaction know exactly how much they are being charged.