The growing trend of peer-to-peer SFTs

The securities financing industry has seen an increase in the number of peer-to-peer transactions in recent months, says eSecLending

Certain major pension funds and other like-minded industry participants are acting on new revenue opportunities created by the downstream effects of restrictive banking regulations. New transactions have developed in response to increased demand from these participants who wish to engage in non-traditional securities financing and repo transactions with counterparties open to such arrangements.

This interest is largely spurred by the marked pullback from banks for select credit and liquidity transactions. As capital constraints on the banking community continue to impact their businesses, peer-to-peer securities financing and repo will become more prevalent among pension plans and others looking to adjust to changing market conditions.

Peer-to-peer opportunities are not just about higher revenue; they can also serve to reduce risk and/or provide additional sources of liquidity or financing for participants. As banks and brokers pull back from providing certain short-term financing and liquidity services due to higher capital charges and/or regulatory requirements forcing them toward longer term financing, the void that is being created in the market is being filled through peer-to-peer activity.

Many of the entities entering into these peer-to-peer trades have higher credit ratings and/or a better credit profile than traditional banks, broker-dealers (borrowers) or repo counterparties. Participants can also manage risk by requiring higher margin levels than the traditional 102% or 105% applied to securities lending and repo transactions.

Several lending agents have tried their hand in the peer-to-peer space. Earlier this year, independent lending agent eSecLending announced the successful implementation of both a peer-to-peer reverse repurchase transaction and a peer-to-peer securities lending transaction between leading global pension plans.

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> CHRIS POIKONEN

Innovation

eSecLending has been at the forefront of peer-to-peer innovation, completing a pension to central counterparty peer-to-peer transaction in early 2015 and advocating peer-to-peer trades as an opportunity to create revenue or manage risk. The company's securities lending programmes have traditionally been segregated, allowing them the flexibility to create customised innovative trades to meet clients' specific needs.

"Peer-to-peer transactions and direct lending can mean many different things, and the trades can be structured in many different ways depending on a participant's motivation for the trade: cash needs, securities needs and/or risk management considerations," says Chris Poikonen, executive vice president at eSecLending.

Comparing peer-to-peer trades offered by lending agents is a difficult task. Depending on how the trade is structured, the counterparty, the type of collateral and margin agreed, and whether the agent will indemnify the transaction or not will all impact the risk/return profile.

"eSecLending has been willing and able to indemnify all of the peer-to-peer trades we have facilitated to date, since they are with high-quality counterparties," Poikonen says. "Our peer-to-peer transactions are facilitated under industry standard documentation and terms, including high-quality collateral with margin. Pension funds and industry players that have seen a marked pullback in lending revenue or financing activity due to regulatory constraints on their bank lender should explore whether a peer-to-peer solution could add value to their organisation."