

RMA Securities Finance & Collateral Management Conference Daily

DAY 3

Thursday, October 13

**Oberon Knapp
on OCC's securities
lending strategy and
the incorporation of
new technologies**



Day three agenda inside ▶

**Proven ROI For Your
Securities Finance Business**





Oberon Knapp
OCC

Vibrant and growing

OCC's Oberon Knapp reveals key developments within OCC's securities lending strategy, and how the organisation is incorporating new technologies to re-architect and modernise its core systems

The Options Clearing Corporation (OCC) recounts a successful year for 2022, revealing plans to reach different corners of the securities lending industry through technological advancements to tackle the demands of its members.

Oberon Knapp, executive director of participant solutions who leads OCC's securities lending team, records a "fantastic" year for the Chicago-based clearing house. He says the firm's stock loan and hedge programme has grown "tremendously" in the past 18 months. In 2021, OCC had 1.9 million new loan transactions, representing a 38 per cent increase over 2020, and an average daily loan volume growth of 65 per cent, reaching 138 billion by year end.

In September 2022, total transactions cleared through the OCC platform faced a 20 per cent increase year-over-year. According to Knapp, the onboarding of 10 new clearing firms to the OCC programme in the past three years reflects the growth of new entrants to the capital markets throughout the Covid-19 pandemic.

Despite market decline, OCC saw transaction volumes increase during 2022 as its average loan balances remain consistent month-over-month. Knapp says this reflects the value the programme can provide to members on the regulatory capital relief and the firm's deepening pool of liquidity.

Pinpointing the main drivers of growth and demand for the firm, Knapp highlights regulatory capital relief. He says: "Firms are looking to make their balance sheets more efficient, and OCC offers a solution. Our stock loan programmes offer a range of benefits that I believe are increasingly appealing in the current market environment, such as expanded loan distribution opportunities for lenders, and expanded inventory and counterparty sourcing for borrowers."

After a successful year for the platform, Knapp indicates new developments in the pipeline for the firm's securities lending strategy that heavily revolve around technology. OCC is taking

steps to move toward a new distributed ledger technology (DLT)-based system, aligning with the company's objective to help lower risks and costs for its members. Knapp comments: "Our current and prospective members are quite enthusiastic about this development. We are working with established vendors and new entrants in the securities finance industry to make sure we can provide a broad set of benefits."

Knapp is keen to expand the benefits of the programme to a "broader swathe" of the securities finance industry, which could be presented in the form of expanded membership, broadening collateral, or term trades — all of which are subject to regulatory approvals.

A digital transformation

In 2019, OCC launched the Renaissance Initiative to enhance its risk management, clearing and data applications. The project aimed to provide an environment for intra-day risk management, intra-day computations, pricing and re-valuation, in addition to increasing transparency and insight for clearing members into exposures via ad hoc queries and real-time processing. Executive chairman and former CEO of OCC Craig Donohue named the initiative "the most important project undertaken by OCC in the past 20 years".

For Knapp, the initiative represents OCC's commitment to digital transformation and innovation. By incorporating new technologies, OCC is working to re-architect and modernise the firm's core systems. The CCP recently announced that its future clearing platform will be named Ovation, which is a "natural follow up" to the current platform, ENCORE. More information about Ovation is coming soon.

One of the key tenets of this initiative has been the development of improved connectivity and data delivery to OCC members and market participants. This includes the design and implementation of application programming interfaces (APIs), which will help OCC streamline its operations and improve end-user experiences.

“The first externally facing API that we plan to release is called the ‘What-if Margining Simulation’, which is designed to provide our members with a self-service capability to see potential margin impacts after submitting hypothetical portfolios,” Knapp reveals. As an API, this project can be built into the client’s own platforms or dashboards. Related technical documentation is available for the ‘What-If Margining Simulation’, with more to come in the near future.

Within its future Ovation platform, OCC is building the new DLT-based system for securities lending clearing that will be designed as an enhancement to the existing infrastructure, with the ability to increase transparency for market participants. Knapp explains: “We consciously chose DLT as the bedrock of the system because it will allow participants to view a golden copy of their transactions in real-time, as opposed to the current batch-based processing that much of our industry relies on.”

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DLT will help support new ways for OCC members to view their activity for contracts, while also reducing daily reconciliation processes. In time, Knapp says, participants may choose to host a node to enable greater synchronisation with their counterparties and within their internal systems.

In concert with the overall Renaissance programme, OCC will have a similar education and engagement campaign with its securities lending members. For day one, the focus will be on data messaging flows and formats, explains Knapp. He continues: “We want to give our members, as well as our shared vendor connections, as much

runway as possible to understand how this will impact them and their resource planning.”

In looking toward the future, and upgrading the OCC clearing and settlement platform, Knapp communicates the intention for the future Ovation platform to be cloud-based — pending regulatory approval. He believes it will help meet the needs of OCC market participants with improved resiliency, enhanced security, and increased scalability.

Improving the industry for all

OCC has achieved a number of goals over the past 12 months, including the decision by the European Securities and Markets Authority (ESMA) to recognise OCC as a Tier-1 third-country central counterparty (TC-CCP) under Article 25 of the European Market Infrastructure Regulation (EMIR). “This is a very important change that gives both current, as well as prospective clearing members that are affiliated with European banks, clarity on the regulatory capital treatment and their exposures to OCC,” Knapp says.

However, OCC continues to look ahead as members request an expanded membership pool, particularly for banks and broader collateral parameters, and support for term trades beyond overnight. Knapp informs that OCC’s core cleared lending business is “vibrant and growing” as the firm works to provide resiliency and efficiency to the industry.

OCC is in the very early stages of an investigation on how it can improve its members’ collateral management, following a desire from members to better optimise their risk exposures and collateral movements across their accounts.

Commenting on what the industry can expect next from OCC, Knapp concludes: “A natural extension of DLT is that of standardisation and transparency across the industry. Some of my colleagues at the OCC have taken leadership roles in FIX’s Securities Lending Working Group — a broad group of industry participants that seek to enable greater innovation through standardisation of bespoke data messaging that we all use today.

“We are really excited to start talking to our members about the DLT platform in the near future, and in general, working with industry groups to help continue to improve the industry for all.” ■

OCC Stock Loan Programs

Key Benefits

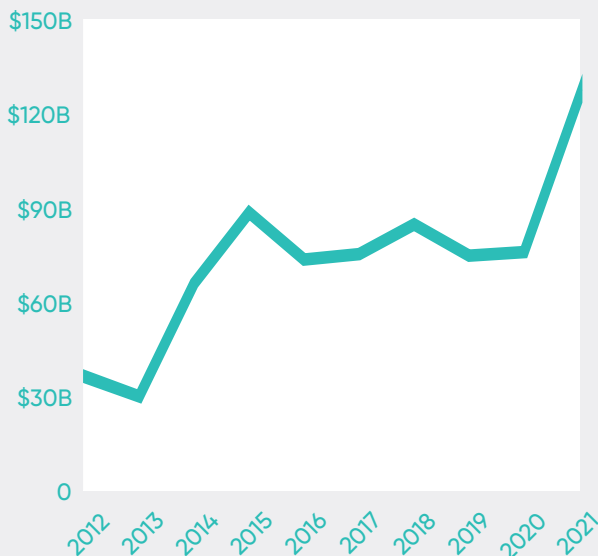
- Counterparty disintermediation
- Expanded credit and trading allowances for cleared activity
- Risk weighted asset savings of approx. 95% compared to uncleared stock loans
- Margin offset
- Automation and streamlined operations

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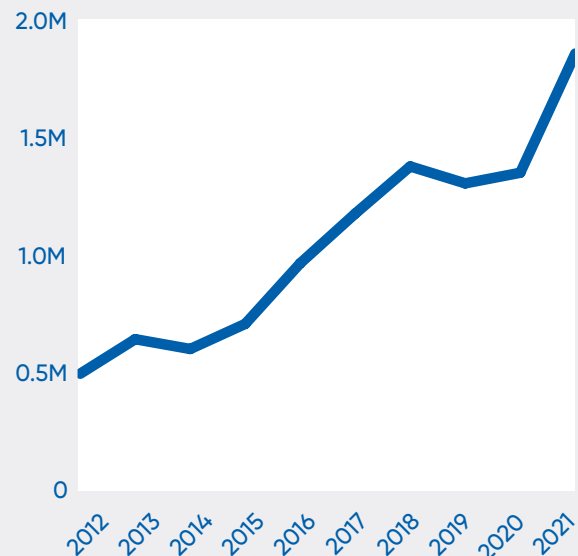
HEDGE LOAN
PROGRAM
MEMBERS

AVERAGE DAILY
LOAN VALUE
AT YEAR END 2021

Annual Notional Value of Loans



Annual New Loan Transactions



For more information about OCC
Stock Loan Programs, visit theocc.com