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Going live: the paradigm shift in securities finance execution platforms

The securities finance industry recognizes that it has reached an inflection point; there are compelling incentives to take action around new trade execution platforms. This is no longer simply about adding new platforms for resilience or incremental features. Market participants want platforms that offer liquidity across asset classes, are cost effective, integrated with post-trade, and deliver advanced pre-trade analytics and smart workflow tools that maximize trader efficiency. This is a fundamental change in approach to securities finance trading rather than adding individual or new functionalities.

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Interviews with buy-side and sell-side market participants conducted for this project provide insights into how firms are thinking about the business case for onboarding to new execution platforms and what differentiates providers. Firms are considering the future evolution of securities finance execution that may include a more exchange-like environment as emerging technologies and smart automation drive new operating models and a shift in trading patterns.

An interest in signing on to new securities finance execution platforms is expected to bring innovation and lower costs to the industry. At the same time, early challenges in liquidity, interoperability and vendor onboarding must be factored in when making a go-live decision.

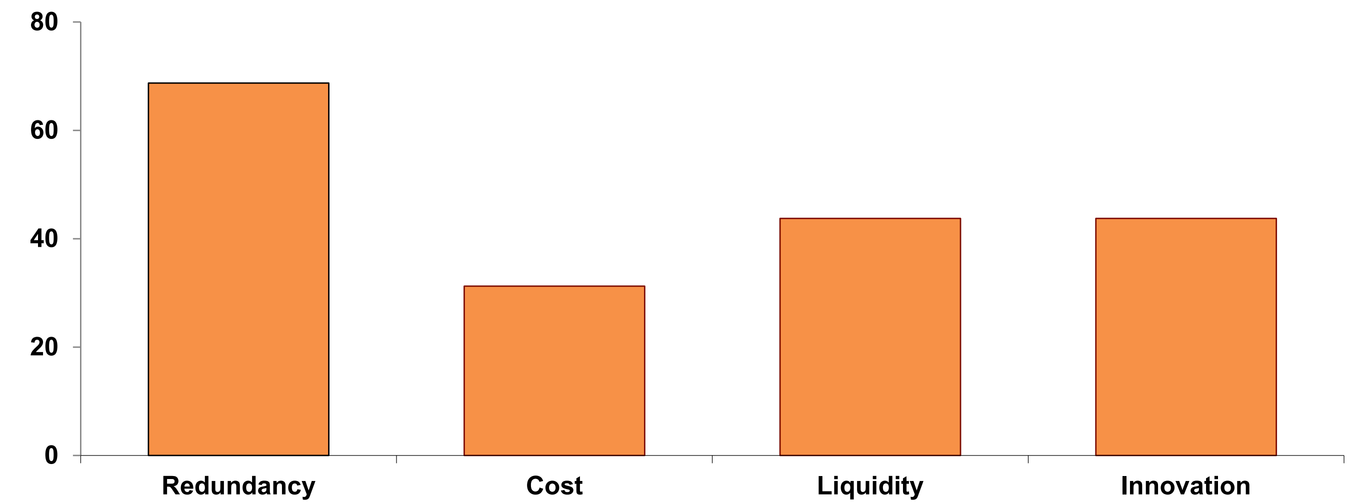
The Business Case for Onboarding to New Venues

Securities finance market participants face a range of challenges to optimizing trade execution:

- Growing cyber threats mean firms must reduce concentration risks and single points of failure. Resiliency and uptime are key business metrics that impact profitability and reputation.
- In the opposite direction, firms want to consolidate their vendor footprint to avoid a proliferation of systems, reduce costs and improve integration. They need trading venues where barriers to entry are low but that also bring liquidity.
- New markets, collateral types and asset classes require a technology strategy that supports growth and expansion.
- Rising trade volumes, shrinking margins and shorter settlement cycles lead to a need for greater efficiency and data communication across the front to back-office.
- A pressing need to optimize trader effectiveness forces firms to rethink their workflows and smart automation tools.
- Firms need an accurate view of the P&L impact of transactions at the point of trade. Not having this information results in a strategic disadvantage compared to their more informed competitors.

The conversation on adopting new securities finance execution platforms has moved beyond resiliency. In a 2024 survey, Finadium found that almost 70% of respondents cited redundancy as the top reason to engage (see Exhibit

Exhibit 1:
Reasons for market participants to engage with a new securities finance execution platform
(Percent)



Source: Finadium
Note: users may have provided multiple responses

1)[1]. New platforms offer diversification and reduce risk through modern cloud-native design that leverages the latest cybersecurity protocols and can scale in line with firms' growth strategies as new markets come onstream. Platforms offering more competitive pricing can reduce costs and lower the barriers to entry for new participants. This has the added benefit of increasing overall market depth, allowing firms to access new liquidity sources. But decentralization creates fragmentation, complexity and expense. Meanwhile, cost, liquidity and innovation are key considerations; these have moved up the priority list for market participants since last year.

When it comes to innovation, users don't want something that just does what their legacy platform did, they want vendors to expand the range of solutions and services on offer. New smart matching algorithms can improve matching quality and minimize post-trade issues, offering a tangible return on investment as markets move to T+1 settlement. Trader workflow tools that maximize traders' time and reduce manual intervention for non-value adding activities increase efficiency, while pre-trade transaction cost analytics that incorporate big data and post-trade costs help to improve P&L through better decision-making.

Key Factors for Selecting the Right Execution Platform

The market participants we spoke with for this report felt that two to three platforms is the optimal number and the market will consolidate. There are too many vendors to support the needs of the existing securities finance industry and each new vendor requires a detailed onboarding process. Six key factors form the outline for how firms will make a decision on a platform-by-platform basis.

1. **Liquidity**

Providers must solve the chicken and egg liquidity problem as users will ultimately gravitate to the platforms where transactions are occurring. One market participant told us that firms have to weigh the benefits of reaching what may be a small number of peripheral borrowers on a new platform against the cost of onboarding. Liquidity is expected to bifurcate at first until it rebuilds. Meanwhile, lenders and borrowers want to access everybody but avoid meeting the same firms in five different places and having to split demand/supply down a particular channel.

Some firms already have or expect to build their own central limit order books (CLOBs) or calculators to evaluate transaction routing costs and returns, creating their own consolidated view of liquidity regardless of venue. This is harder for small and mid-sized firms, which must avoid backing the wrong horse by predicting which venues will end up with the most liquidity. Some of this can be solved by signing up to platforms that can bring liquidity through an existing client base rather than having to grapple with the cold start problem. These firms have an advantage over those trying to build liquidity from the ground up.

2. **Ease of Onboarding**

Vendor due diligence and more stringent cybersecurity checks in the procurement process mean that approvals and onboarding for a new platform provider can take well over a year. Platforms provided by incumbent vendors who already have systems installed at a firm and can demonstrate robust cyber protocols can reduce time to market and simplify the onboarding process. Keeping vendor footprint to a minimum also reduces the number of new attack surfaces for cyber threats. Modern and highly scalable cloud-native solutions that have cybersecurity built in by design rather than added as an afterthought can lessen the risk of vulnerabilities.

There are advantages to using execution platforms that are already embedded in the ecosystem and have built-in integration between the front office and post-trade. Many firms have 3+ systems across the front to back-office. This results in a need to manage multiple vendor relationships, normalize data and create interfaces between systems. When done successfully, this enables a better circular flow of information between traders and operations and reduces operational risk from managing multiple system integrations.

3. **Trader Workflow Tools**

"Efficiency gains are less driven by cost, more a function of how traders spend their expensive time. There is too much dead space, a lot of copying of ISINs. We want to make people more efficient and have them work on where it matters."

Head of Cash & Collateral Trading at a European bank

Many of the benefits of a new execution platform come from improvements in trader efficiency. This is not a case of reducing headcount but rather removing manual tasks that don't add value, reducing the cognitive load on traders and freeing up mental bandwidth to focus on strategic decision-making. For example, there are breaks in workflow from having to switch back and forth between the execution platform and inventory management system. Traders must copy ISINs between systems, make decisions on execution, inventory and counterparty selection in both systems then book the trade. Integration and straight through processing (STP) between the execution platform, inventory management and trade capture systems can automate this manual effort, reduce errors, and increase that efficiency.

4. **Smart Matching and Algorithms**

In a world moving to T+1 settlement, a better quality match at the point of trade can minimize post-trade issues and reduce a lot of strain on operations, reducing transaction costs overall. Smart matching algorithms act as a valuable copilot for traders. If a transaction does not match, algorithms can provide analysis on what happened and how the bid or offer can be improved the next time around. For example, perhaps the counterparty does not accept partials or there are problems with the collateral.

Technology can inform the trader on the next-best action to resolve these issues and the financial impact of taking that decision versus the original action. It can enrich the process by offering more automated routes to resolution, improving utilization rates and allowing traders to focus on expanding the range of opportunities. As algorithms learn from responses, see patterns in what is going on and how counterparties act, they will make better recommendations on the optimal course of action.

5. **Post-trade Integration**

"Traders should be able to see the real-time status of every transaction, is it settled or pending, matched, failing? This is a multi-functional dynamic initiative across different providers, vendors, custodian banks and how you collate all of that data and standardize it."

Director of Product Development, US agent lender

T+1 and regulations around short selling are driving a need for intraday trading and robust real-time lifecycle event workflows. The shorter the settlement cycle becomes, the greater the interaction between trading and settlement processes. Securities finance is an ongoing transaction with a lifecycle and downstream impacts.

There needs to be a circular feedback loop between trading and post-trade with real-time visibility and communication across the front to back-office. Connecting the dots from asset availability to requirements across multiple business lines, in one seamless loop can deliver real efficiency gains. It enables firms to break down silos at desk level through a more holistic view of assets and liabilities and ensures that the right assets are mobilized to the right place at the right time in a more proactive way. The more that core back-office technologies view any trade type as eligible for inclusion in their processing, the easier the progression to convergence and the standardization that happens alongside it.

When onboarding to a new execution platform, anything alternative from a new provider can take a long time to integrate and build trust that the high throughput pipes necessary for post-trade integration work correctly. Using execution platforms that work from the same data model can remove this headache and enable a faster time to market, with a closer interaction across the front to back-office.

6. **Commercial Considerations**

"If a platform has deep enough demand sources plus the cost to do business is lower, we would put all of our inventory with it in a day. The most frictionless environment wins."

Global Head of Securities Lending, US beneficial owner

Market participants told us that the decision to onboard a new execution platform centers around liquidity, trading costs, ease of onboarding and reduced friction in the trading process. These are the basic hygiene factors that platforms need to get right. Augmented features such as workflow tools, smart matching and transaction cost analysis then add further value and differentiation.

When it comes to pricing, vendors provide a range of options, from flat monthly fees to a charge based on a basis point amount per-ticket. The market is seeing aggressive price competition as the pendulum swings to a more cost-effective model that reduces the barriers to entry for small and mid-sized firms. This has the added benefit of bringing new participants onto a platform, increasing market depth, diversity and liquidity. Having more counterparties on a network boosts multilateral all-to-all trading activity instead of a complex web of inefficient bilateral relationships, growing the overall size of the pie for everyone.

The Future of Execution

Execution is evolving as healthy competition between providers drives innovation and new technologies create opportunities for the industry to become more efficient. There are three major trends that will shape the future direction of travel: pre-trade analytics; greater interoperability; and increasing use of artificial intelligence (AI).

Advanced Pre-trade Transaction Cost Calculators

Shrinking spreads and a need to optimize economic resources result in a need to consider the true P&L across the full lifecycle of a trade and ensure the most economic match. This means automating the evaluation of multiple factors involved in securities finance trading, including fee or rebate rate and binding constraints such as capital requirements or liquidity ratios.

However, many other factors can influence trade economics and bottom-line impact, and the best economic match may not always be the cheapest fee or rebate. These include transaction and reporting costs, cleared or bilateral routes to market, and collateral needs. There is an opportunity cost to consider in the type of trade a security is deployed in. For example, is it most profitable to use it in a securities loan, a repo, or to collateralize a derivatives trade?

Decisions on the best match can also include counterparty trading patterns and operational efficiency. For example, embedding information at the point of trade around recalls, churn/turnover, and fail rates can help to determine the optimal counterparty for a trade and the best possible match. It may be more economic to pay more to borrow from a different counterparty because the funds they hold in their custody from their lending program have lower turnover.

Much of this is stored as tacit knowledge in traders' heads. However, the sheer number of factors influencing the P&L of a trade cannot be assimilated and acted on in the fractions of a second that decisions need to be made. This makes it impossible to make accurate decisions without the help of sophisticated new tools.

In his book "Thinking Fast and Slow", Nobel Prize winning psychologist Daniel Kahneman explores the two systems of thinking: System 1 (fast, intuitive, emotional) and System 2 (slow, deliberative, logical)[2]. The new wave of decision support tools combine the best elements of both modes of thinking. They can process vast amounts of data quickly and logically to provide new insights. This can then be supplemented with the subtle nuances of traders' intuition, built from years of experience and an understanding of the relationship aspects of securities finance.

The incremental benefit of booking trades with the best economics, the right route to market, the optimal collateral and the correct counterparty can create a major P&L impact for the desk over time. However, these tools can only function correctly with close integration between the front and back-office and accurate real-time data, highlighting the critical importance of post-trade integration with execution.

Greater Interoperability

Some market participants expressed a desire for a standardized FIX-based messaging or Common Domain Model (CDM) based protocol that allows interoperability between platforms. Interoperability is at its heart about reducing friction and improving STP. However, standardization has been slow to move forward in securities finance. There are valid reasons why firms do things differently as the complex nuances and trading needs of each firm can vary depending on their strategy and flow, particularly on the buy-side. There is often a natural resistance to adopting an external standard when organizations have spent years building and refining their own internal models.

Interoperability does offer tangible benefits. For example, if the firm has a derivatives transaction it needs to collateralize, an interoperable suite of systems can create a ready-made order. The system knows this needs to take place. It could then send this to the optimization engine which determines if the firm has anything in its long box already that could satisfy the margin call. If not, the system calculates the delta and proposes what the firm needs to achieve for the economics of the transaction to make sense versus the market data for the securities it needs to obtain. From there it gets to the trading venue and the most economic match within the parameters the firm sets. Finally, all of this automatically flows through to the settlement, regulatory reporting, and books and records systems. While this level of STP is still some way off, it provides a North Star for the industry to work towards.

Increased use of AI

The use of AI and particularly generative AI and agentic AI will continue to grow as tools become more sophisticated and trusted. Securities finance traders often have many years of experience and understand small nuances. This gives them the advantage of human intelligence compared to an AI response that is just based on the data it is given and does not have a full understanding of outcomes.

However, as AI matures it could offer more sophisticated decision support tools. This could include looking at inputs such as when inventory tends to grow in a specific asset class. When does it come onstream? When are there bursts of demand for a particular asset class or security type and what are the outside cash market influences that create this demand in the first place? The AI can then create predictions that help to optimize trader decision making while continuously learning and improving from the impact of those decisions. This is something that will take time and a human in the loop will remain a critical part of trading for years to come. Incremental advances that will save two or three chunks of fifteen-minute segments of traders' time a day will be the path forward rather than sudden change.

There is a growing urgency to move to new execution platforms, but this goes beyond the need for diversification and resilience. The business case for new venues spans more competitive pricing, optimized matching, and improved trader workflows. Selecting a provider that can bring liquidity, offer easy onboarding and integrate seamlessly with post-trade systems can streamline the process of moving to a new platform. This will reduce risk and add value well into the future as the industry adopts higher levels of automation and STP, delivering the gains in efficiency all businesses are seeking.

References:

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2 https://psycnet.apa.org/record/2011-26535-000