

Cboe Clear Europe and BNY unlock UCITS access

Cboe Clear Europe has named BNY as the first agent lender of its securities financing transactions clearing service — the first to clear on behalf of UCITS clients, allowing them to participate in centrally cleared SFTs. Hansa Tote reports

Cboe Clear Europe, the pan-European clearing house of Cboe Global Markets, has named BNY as the first agent lender of its securities financing transactions (SFT) clearing service. The milestone was achieved with BNY clearing SFTs on behalf of Undertakings for Collective Investment in Transferable Securities (UCITS) clients, expanding the service to a key new client segment.

The New York-based bank's achievement marks a watershed moment, not only as the service's first agent lender, but also as the first to clear on behalf of UCITS clients, notes Jan Treuren, SFT product lead at Cboe Clear Europe.

Following this, both BNY and Cboe Clear Europe have collaborated to introduce a new title transfer model with pledge-back, enabling UCITS to access centrally cleared SFTs without posting margin or contributing to the CCP's default fund when acting as lenders.

The clearing house believes UCITS will become more attractive counterparties for borrowers using the service, therefore increasing the amount of assets on loan, boosting market liquidity, and supporting balance sheet efficiency for borrowers in the securities lending space.

Building blocks

The SFT clearing service comes nine months after the firm launched a central clearing service for European SFTs in cash equities and ETFs, an initiative that has reached a number of milestones since, with the first trade being cleared in March 2025, using Natixis Corporate & Investment Banking as principal lender and J.P. Morgan as borrower.

Treuren says the central clearing service has been transforming the traditional bilateral process for SFTs in European equities and ETFs into a centrally cleared model, "creating a more transparent, efficient, and resilient market structure".

More recently, ABN AMRO Clearing joined as an active participant in the role of borrower, and BNY as agent lender, further expanding the breadth of institutions engaging with the service.

The new SFT clearing service utilises BNY and J.P. Morgan as triparty collateral agents, while Pirum serves as the transmitter of new trade instructions and post-trade lifecycle events on clients' behalf. It also provides margin and operational advantages within major cash equities clearing houses in Europe, according to Cboe Clear Europe, building upon the central clearing service, and expanding their reach.

Discussing the firm's involvement in the collaboration, Pirum's global head of business solutions, Rob Frost, explains: "Pirum acts as the connectivity hub to connect industry participants wishing to clear via Cboe Clear Europe, to the infrastructure that supports lenders and borrowers' bilateral trading. So that, whether a loan is bilateral or cleared via Cboe, the whole workflow from trade initiation, to collateralisation, to the return, the workflow, GUIs and interfaces are largely the same, reducing additional operational overheads in supporting cleared transactions versus bilateral."

Commenting on the drivers behind the launch of the SFT clearing service, Treuren states: "As strong advocates of the transformative power of central clearing we are continually seeking opportunities to extend our expertise into new geographies and asset classes.

"Launching a securities financing transactions clearing service was especially exciting to us, given the size of the market and because this asset class has largely been bilateral and uncleared."

Despite previous failed attempts to bring clearing to SFTs in the past, Treuren says the team is now coming to market with the correct model, at the right time.

He notes that the developments are as a result of market demand, having previously had participants reach out to Cboe Clear Europe, seeking solutions to address new capital regulations that threaten the growth of the securities lending sector.

"Under Basel III and Endgame reforms, bilateral SFTs with 'unrated' counterparties — such as UCITS and pension funds — face risk-weighted asset charges of up to 100 per cent. Central clearing

alleviates this by mutualising risk through a central counterparty. With Cboe Clear Europe's new service, participants benefit from a far lower two per cent risk weighting," Treuren explains.

The offering, which includes matching, clearing, settlement, and full lifecycle management of SFTs in European cash equities and ETFs, is "unique", according to Treuren. It is also designed to deliver capital efficiencies while standardising and simplifying settlement, reporting, and client onboarding.

Commenting on the partnership, Laide Majiyagbe, global head of liquidity, financing and collateral at BNY, states: "This collaboration reaffirms our commitment to innovation and optimisation, as we continue to deliver capital efficiencies to our clients and borrowers, driving increased utilisation and enhanced liquidity."

At the time of the announcement, Vikesh Patel, president at Cboe Clear Europe, said "this innovation" within its SFT cleared offering reinforces the firm's commitment to driving market innovation, transparency, and resilience in financial markets.

He added: "By leveraging BNY's expertise and Cboe Clear Europe's clearing capabilities, we have created an innovative solution that is designed to enhance market confidence, optimise collateral efficiency, and empower UCITS participants to engage in securities finance with unparalleled levels of security and transparency."

How is it tailored?

Tailored to UCITS clients, the new title transfer with pledge-back collateral model addresses regulatory and operational constraints while enabling participation in Cboe Clear Europe's SFT clearing service. Typically, UCITS funds are highly regulated under EU law, and are unable to post margin or contribute to a CCP default fund when acting as lenders.

Treuren explains: "With the market access to Cboe Clear, it allows UCITS to participate in centrally cleared SFTs, improving liquidity and utilisation rates in the service. This supports the need for further balance sheet efficiencies for borrowers while maintaining UCITS' regulatory compliance.

"Traditional central clearing models require margin contributions to cover credit risk exposure, which would disqualify UCITS from

participating. For agent lenders, there is an additional benefit: by virtue of participating in central clearing, they no longer need to provide agent lender disclosure files to borrowers, streamlining what was once a labour-intensive process."

The opportunities created by the move are "potentially huge", he adds, due to the capital, risk, and operational efficiencies being created in stock borrowing and lending for the benefits of asset owners, borrowers, and intermediaries.

The CCP cleared model means the borrower no longer directly faces the UCITS, but instead faces Cboe Clear Europe as the lender, therefore reducing counterparty credit risk due to the CCP absorbing the risk.

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Treuren states that, from a capital standpoint, "the benefits are even greater: exposures to a qualifying CCP attract lower capital charges (two per cent RWA), and borrowers can net positions across all cleared trades".

Supporting UCITS's regulatory requirements and their engagement within the securities finance market, Majiyagbe highlights: "UCITS have specific regulatory requirements, and together with Cboe, we have designed a pioneering title transfer with pledge-back collateral model via our Global Collateral Platform.

"This innovative structure unlocks the benefits of central clearing for UCITS via triparty, enabling them — alongside other beneficial owner lenders — to become members of Cboe Clear Europe." ■