



## **Bridging traditional and synthetic finance**

*David Raccat, Wematch co-founder and global head of securities finance, speaks to Bob Currie about the advance of the company's cross-asset platform, digitisation of securities finance, and its ambition to be the number one TRS ecosystem worldwide*

Wematch has been making big strides since its formation in 2017 by co-founder and CEO Joseph Seroussi, David Raccat, and CTO Elie Slama, with the goal of connecting market participants and driving the digitisation of the securities finance sector.

Subsequently, it has set about building a cross-asset platform, growing from its early roots in the financial incubator programme of its key investors — and a primary focus on the total return swap (TRS) market — to also offering optimised workflow and lifecycle management for interest rate derivatives, equity derivatives and delta one products, collateralised finance, and securities lending.

While the Wematch platform spent its early life predominantly supporting dealer-to-dealer (D2D) activity, it is also broadening its focus to deliver wider efficiency to the dealer-to-client (D2C) segment. It indicates that it has now onboarded close to 1000 traders and sales staff at 90 financial institutions onto the platform and is playing a prominent role in bridging traditional and digital finance.

### Synthetics ecosystem

For Wematch, the primary objective is to be the global one-stop-shop for synthetic trading, and traditional lending, explains Raccat. Total return swaps occupy an important place in the securities financing ecosystem, with an expanding community of users recognising the flexibility, risk management and balance sheet advantages of synthetic lending. Dealers and investment bank clients remain Wematch's largest constituency of users, but a handful of agent lenders are currently looking to extend their coverage to synthetic lending. Wematch also supports buy-side institutions that are already involved in the TRS space and are interested in broadening their TRS franchise to a wider range of trading partners. "We aim to be the number one TRS platform on a global scale," explains Raccat.

To do so, it has been developing innovative workflow solutions that extend well beyond the trade matching element profiled in the company name. It offers an automated platform that helps dealers to issue indications of interest (IOLs) and conduct trade negotiation, to navigate collateral eligibility schedules, and ensure that trade details align with counterparties, thereby providing a sound foundation for high STP rates across the trade lifecycle.

Beyond this, Wematch offers a broad suite of workflow and optimisation tools which includes lifecycle management, market data and analytics, sales-to-trader workflow, an ETF optimiser and collateral optimisation.

To complete this vision of a full TRS lifecycle coverage, Raccat indicates that the company is soon to add two missing components which will be delivered during Q2. The first is cashflow reconciliation, enabling clients to reconcile funding and equity performances for each TRS contract at reset and at expiry. This is a significant pain point currently.

Second, Wematch will release a new module supporting TRS market data and pre- and post-trade analytics, thereby providing predictive insights that will help users to draw maximum value from their trading strategies. "Data in the TRS space has typically been a constraint," explains Raccat, "with few data vendors able to provide comprehensive and accurate data for this asset class. Given that a major share of TRS volumes are concentrated on Wematch's platform, particularly in EMEA, this sets us as an ideal candidate to work out the data and to redistribute on a smart basis to our community of users."

Indeed, Wematch now supports approximately US\$150 billion of notional outstanding on its platform globally, a sharp increase from the US\$20 billion it supported globally in July 2020. EMEA continues to account for a large share of this global activity, representing US\$116 billion in ongoing notional at the time of writing.

Since launching in the US two years ago, Wematch has seen ongoing notional grow in this location to US\$25 billion. The company also relaunched its services in the Asia-Pacific region in January, following a hiatus during Covid, and is on its way to hitting the US\$10 billion mark in ongoing notional from the APAC region.

Wematch offers integrated workflow across the trade lifecycle, but indicates that it is agnostic to where the trade is negotiated, whether on Wematch's platform or elsewhere. "This is an important component of Wematch's offer," says Raccat. The focus has been on developing an open architecture workflow, enabling the user to import trade data into the system wherever the trade has been printed.

"As a solutions vendor, we do not feel we should be telling traders how they should access liquidity, when that is their job and their core expertise," adds Raccat. "Regardless of how the client negotiates and executes the trade, when the trade details are uploaded to Wematch's platform we can then support the downstream workflow and offer a full set of solutions to deliver efficiency across the trade lifecycle. This is changing our relationship with the user."

### **Bridging traditional and synthetic**

In earlier discussion, we have already identified a potential blurring of the lines between synthetic and traditional lending. Wematch recognises this as a technical challenge, but also as a commercial opportunity for the company and the community that it supports.

Prime broker firms are constantly seeking ways to reduce the regulatory capital impact of their trading and financing strategies and are liaising with their counterparts on the lending side to identify whether they can shift some of the balance from physical to synthetic lending, reducing risk-weighted assets and managing their balance sheets more efficiently.

Agency lenders are also reviewing the potential benefits of adding synthetic lending to their lending capability. “As a synthetic lending platform, we have had discussions with a number of agent lenders that are evaluating agency TRS-based solutions and exploring whether they can draw on the technology that we have developed over the past five years to help them to develop their solution,” says Raccat.

These are typically large and well-established agency lending businesses that will take time to adapt to synthetic lending alongside their established physical-lending expertise. But Raccat is already starting to recognise disruption in this segment and believes that the early movers will capture significant business advantage. “We are moving towards an inflection point for the industry,” he says. “Prime brokers will begin to direct a rising percentage of their current physical borrowing towards synthetic — and the first agent lenders that establish an agency TRS product are likely to attract significant volumes.”

“The race has already begun to capture this activity,” he continues, “and this transition is likely to move faster than many commentators might expect. We are not talking in the near term about agent lenders switching 100 per cent of their lendable assets from physical to TRS — but the ability to extract a slice of these assets, for example from their largest beneficial owners clients, is likely to take months or quarters rather than years.”

### **Voice negotiation with digital workflow**

In February, Wematch announced that it has entered into a cooperation agreement with MTS in the interest-rate derivatives space, whereby the Euronext-owned electronic fixed-income trading platform will

apply Wematch technology to offer web-based interdealer trading for interest-rate swaps.

This solution, MTS Swaps by Wematch.live, aims to digitise voice trading in rates swaps, combining benefits of traditional voice trading and fully electronic execution platforms in providing additional flexibility to traders to do voice negotiation supported by digital workflow.

Traders will benefit from higher automation compared with traditional voice-based trading workflows, along with trade protection through pre-trade price and size controls, and electronic audit trails across the negotiation and trade lifecycle. The service partners indicate that this facility will reduce trading costs through a transparent fee schedule offering per-trade or bundled fee options.

This will be released with interdealer order-book trading functions and will offer additional negotiation choices to the electronic rates swap market such as meet-in-the-middle and upsize. The two companies indicate that D2C request-for-quote (RFQ) trading facilities are likely to be added later this year.

MTS Swaps draws on Euronext MTS’ large European trading network, which supports average daily trading volume in advance of €160 billion, reinforced by Wematch’s expertise in delivering digital trading workflow.

Raccat explains that this service will go beyond the dealer-to-dealer platform to also provide a dealer-to-client solution, integrating the Wematch technology within the MTF BondVision platform, Euronext’s multi-dealer-to-client trading platform for government bonds and credit. “This provides an opportunity to partner with a top-quality D2C platform backed by Euronext, the Paris-based exchange offering multi-asset trading in seven EU markets,” he says.

### **Hard-to-borrow**

The processes associated with accessing and borrowing hard-to-borrow (HTB) securities have typically been manual and inefficient, with trade negotiation relying heavily on voice, chat or email and with few effective facilities in place to facilitate electronic negotiation and automated workflow. Responding to this constraint, Wematch has built a digital lending module for HTB securities as part of its securities lending platform, enabling traders to access liquidity in these names more easily in lit and dark markets. This supports automated negotiation, matching and RFQ facilities to enable users to offer prices and bid on

specials and relatively illiquid mid- and small-cap stocks for which there may be high borrower demand.

“The hard-to-borrow platform is making strong progress,” comments Raccat. “We already have more than 20 clients that are using this platform on a daily basis and we have been issuing regular new releases for this service. We are talking to a wide community of clients, which will scale up what is achievable in terms of the volumes we support.”

This platform has been live in Europe for more than 12 months and Wematch intends to make this available in the US in coming weeks, as well as extending this out to APAC clients. “The Wematch HTB platform is compatible with a wide range of negotiation protocols and offers automated workflow, delivering high STP rates that mark a significant departure from the manually-intensive trading and process flows that have traditionally dominated hard-to-borrow securities,” says Raccat.

### ETF Synthetics

Banks face significant complexity when hedging synthetic ETF positions using TRS, requiring information relating to how the ETF is structured, investment guidelines, concentration limits, and potential restrictions imposed by sustainability and ESG parameters.

Since the inception of the ETF market, these exposures have typically been managed through inefficient and time-intensive manual processes that present substantial operational risk. Wematch aims to bring automation and more efficient workflow in hedging ETF synthetic positions using TRS.

In handling ETF synthetics, banks are engaging directly with ETF issuers and face significant complexity in managing term sheets and working with the associated collateral. “This may require monitoring all the concentration limits associated with a UCITS fund, for example, and ensuring that these limits are never breached when there is a collateral allocation,” says Raccat.

By adding this solution to the Wematch workflow, the company is confident that this may open the door for more buy-side organisations to use the Wematch platform. It aims over the coming 12 months to onboard more ETF issuers, and asset managers more generally, providing them with technology, assisting their STP workflows, offering API interfaces and access to the TRS ecosystem that it has established.

“We are very aware that the ETF synthetic space is an underserved part of the market,” notes Raccat. To manage collateral efficiently, a firm needs to have all of its trades in one place, accessible through a single platform. Otherwise, this will result in additional fragmentation. “So by ensuring that every trade, physical or synthetic, is managed in the same system, this moves us ever close to a one-stop shop for collateral. That is where we want to go.”

### Concluding thoughts

In closing, Raccat indicates that Wematch views itself as the reference platform for the synthetic lending market, serving the important objective of bringing standardisation and automation to a market segment that was previously characterised by inefficient manual processes.

The company continues to manage its solutions development and IT capability in-house, with developer teams based in Tel Aviv, Paris, and New York to support its expanding global footprint. Raccat explains that the primary investors and shareholders also continue to play a key role in guiding strategy and solutions development. J.P. Morgan, for example, was central to guiding the development of Wematch’s interest rate derivatives solution and Société Générale was prominent in driving the equities derivatives product.

Wematch closed a Series B funding round in December 2021 that raised close to US\$28 million and added several new investors, including Barclays and CE Innovation Capital. This Series B funding was led by DB1, the corporate venture capital arm of Deutsche Börse, with J.P. Morgan, Societe Generale, Augmentum Fintech and Illuminate Financial among the other companies that participated in this funding round.

“We are fortunate to have strong shareholders and banking partners,” says Raccat, “and they are fully aligned with Wematch’s growth and success, participating through a collaborative approach that drives the company.”

“A member of our user group may put forward an idea and we will work together to scope, design, develop, test and release for the benefit of the full Wematch community. But this stakeholder may also benefit from ideas that have been proposed by other user group members, such that this process works more as a partnership than a series of client-provider relationships,” concludes Raccat. ■