



## The forefront of P2P innovation

Peer-to-peer trading provides potential for innovation and growth, says Andy Wiblin, repo and securities lending product owner at ION

Over the last few years, sweeping regulatory changes and significant increases in capital requirements have led banks to shrink their balance sheets and focus on high-quality liquid assets (HQLA).

With bank balance sheet availability decreasing, beneficial owners, hedge funds and other market participants have to find new ways to fund their positions outside of the traditional lending model. One of the ways they're doing this is through peer-to-peer (P2P) securities lending transactions.

The P2P model enables lenders and borrowers to agree directly on the price and terms of a trade without credit intermediation from a broker-dealer, agent lender, or prime brokers.

In addition to eliminating the need for credit intermediation and bank balance sheet usage, P2P offers benefits such as:

- Additional sources of liquidity or financing for market participants
- Additional trading leverage for hedge funds, due to US Regulation T rules allowing hedge funds to use more cash from short sales to invest outside of their margin requirements
- Increased use of non-HQLA securities, because the parties involved aren't bound by the same capital reserve standards as broker-dealers

Although the P2P market is still relatively small compared to the global securities lending and repo markets, it's growing quickly. Industry estimates put current activity at around \$200 billion.

As capital requirements become more restrictive, the case for P2P trading will only get stronger.

### **The emergence of P2P platforms has created opportunities for broker-dealers and prime brokers**

As interest and demand have grown, several major service providers have developed platforms that facilitate P2P trading.

In this rapidly changing landscape, it's important to recognise that broker-dealers, agent lenders, and prime brokers still have much to offer in the P2P space. Although lenders and borrowers will use P2P platforms to

execute these trades, dealers can provide a host of pre-trade and post-trade services to support this growing market. For example:

- Access to P2P platforms and operations management services
- Aggregation of liquidity and pricing information from multiple P2P and market data platforms to help customers make the best decisions possible
- Access to indemnification platforms
- Counterparty credit analysis
- Clearing and settlement
- Tracking and management of exposures related to P2P trades, from the perspective of the peers involved in the transaction
- Tracking trade performance relative to the current market and opportunities for refinancing
- Providing web-based reporting tools participants can use on-demand

While participants in P2P lending may be willing to take on credit risk, or alternatively to purchase indemnification from a third party, they probably won't want to take on additional operational risks and costs associated with managing the pre-trade and post-trade functions currently managed by dealers in the traditional securities lending model.

Broker-dealers that can provide their customers with access to P2P, indemnification, and market data platforms, as well as tools to help them drive and optimise trading decisions, and post-trade supporting functions, will enable their customers to trade via P2P seamlessly.

### **How can ION Capital Market Solutions help?**

ION has a long and proven history of providing solutions for capital markets. With its rich offerings in securities lending, market connectivity, market data integration, order management and web reporting, the Anvil 9 solution is ideally suited to help broker-dealers and prime brokers provide lenders and borrowers with everything they need to participate in P2P trading with confidence. And as this market continues to develop, these partnerships will ensure that all parties involved can stay in the forefront of P2P innovation. [SLT](#)

*To learn more about how ION can help your business innovate and grow, contact: [anvil-info@iongroup.com](mailto:anvil-info@iongroup.com)*