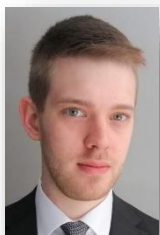


The impact of the COVID-19 pandemic on post-trade activity



Cedric Collaert

Analyst

Surveillance of financial market infrastructures,
payment services and cyber risks
National Bank of Belgium



Sven Siedlecki

Analyst

Surveillance of financial market infrastructures,
payment services and cyber risks
National Bank of Belgium

ABSTRACT

Belgium hosts a number of significant financial market infrastructures, custodians and critical service providers, some of which also have a systemic relevance internationally. This article aims at providing an overview of the impact of the COVID-19 pandemic on the business activity of the Belgian institutions that are relevant for the international post-trade sector: the international central securities depository Euroclear Bank, the global custodian BNY Mellon SA/NV and the financial messaging services provider SWIFT. We compare among others the evolution of the number and value of transactions and the assets under custody in 2020 with the pre-pandemic year 2019 to identify what was the impact of the COVID-19 crisis and whether this was temporary.

INTRODUCTION

After a trade in a financial instrument is concluded between a buyer and a seller, it can be cleared in a central counterparty (CCP) and settled in a central securities depository (CSD). Financial market infrastructures (FMIs) and financial institutions that provide securities clearing, settlement and custody services are considered part of the post-trade securities landscape. While there is no CCP with headquarters in Belgium, Belgium hosts three CSDs (Euroclear Bank, Euroclear Belgium and NBB-SSS) and a global custodian BNY Mellon SA/NV (BNYM SA/NV).

The settlement of a trade results in the transfer of cash and/or of a financial instrument between the parties in the books of a central securities depository (CSD). CSDs generally act as the register of



securities issued in their domestic market. In the case of international securities, such as Eurobonds, issuers can choose the currency or country of issue. These securities are held in international CSDs (ICSDs)¹.

A custodian facilitates their clients' access to securities investment markets. As the European subsidiary of BNY Mellon, a US based global systemic bank, BNY Mellon SA is the custodian of the group for European clients and the European gateway to the euro area markets and payment infrastructures.

THE IMPACT OF COVID-19

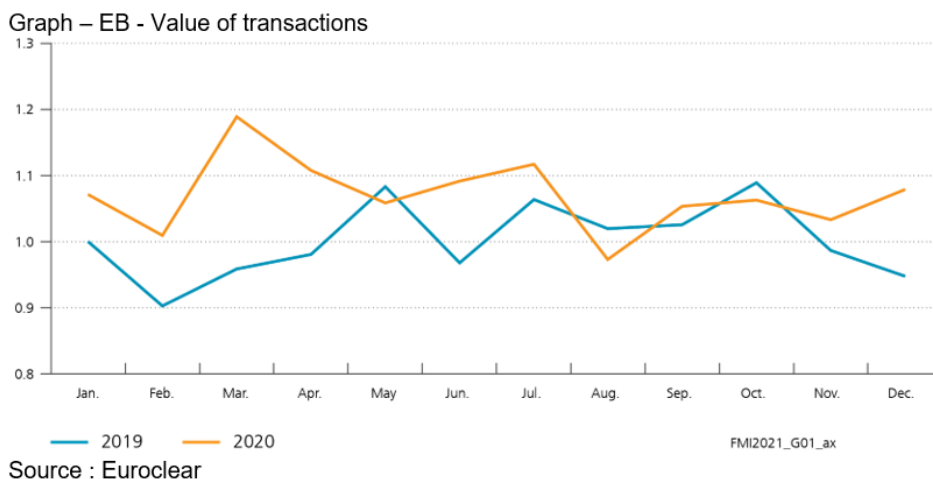
The following graphs compare the impacts observed for the ICSD Euroclear Bank (EB) and the global custodian BNY Mellon SA/NV. This paragraph shows how the two institutions' business was impacted by the COVID-19 crisis, although they have different profiles in terms of asset composition (about 50% of BNYM SA/NV's assets under custody in terms of value consist of equities, while the latter category only accounts for about 2% of Euroclear Bank's assets held under custody.).

The following graphs show the change in 2020 compared to 2019, using indices with January 2019 as reference point (=1).

Turnover

The outbreak of the COVID-19 pandemic proved to be a major source of volatility in financial markets. As the global rise in COVID cases gained momentum, governments responded with unprecedented measures. The subsequent market turmoil led to an increase in both the volume and value of transactions that EB had to settle.

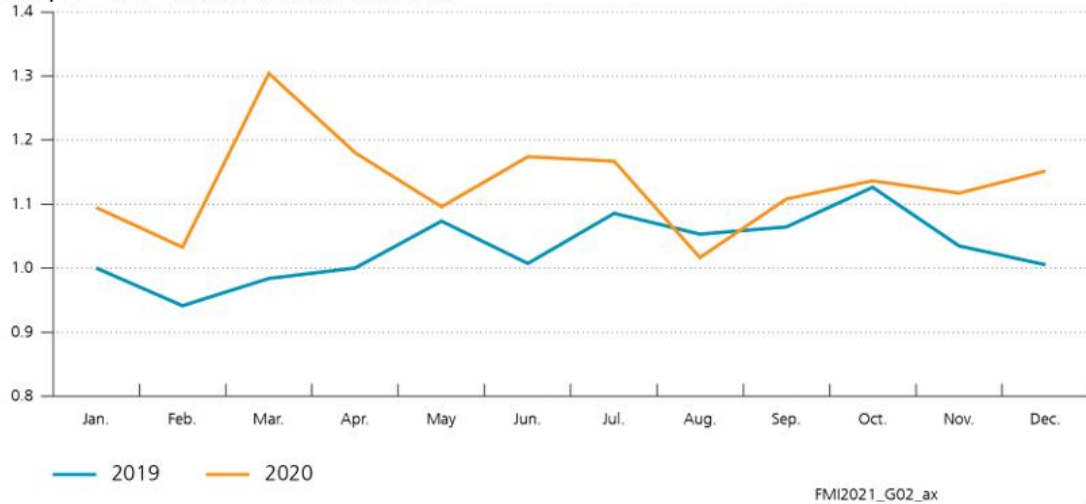
An overall increase in turnover is observed for EB, as shown below. A peak in March, which later smoothed out, is observed for both the number of transactions and the value of turnover.



¹ There are two ICSDs in the EU which act as "issuer CSD" for Eurobonds, i.e. Euroclear Bank established in Belgium and Clearstream Banking Luxembourg.



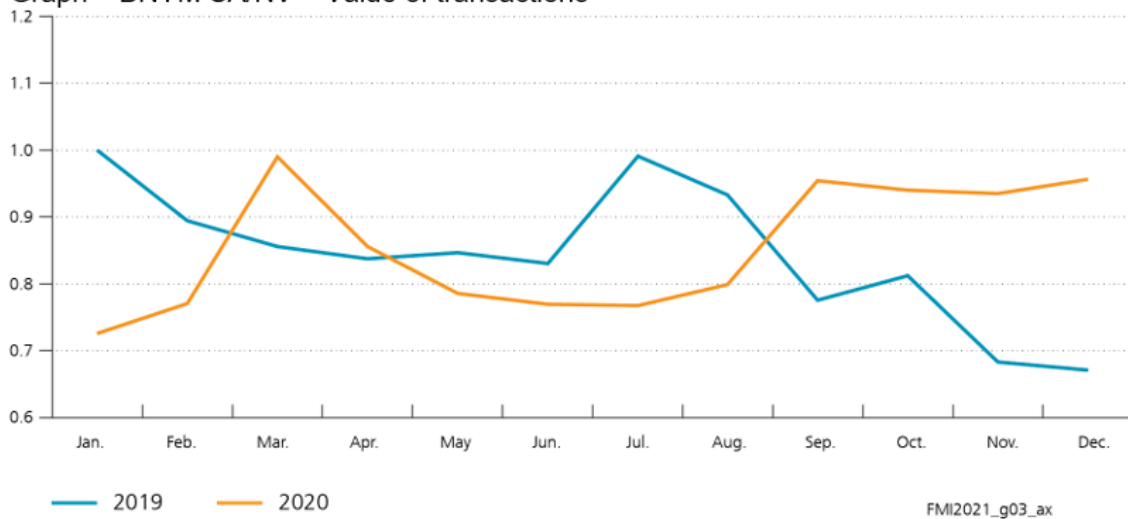
Graph – EB – Number of transactions



Source : Euroclear

Similar observations can also be made for BNYM SA/NV as it processes transactions on behalf of its clients. The number and value of transactions jumped significantly in March.

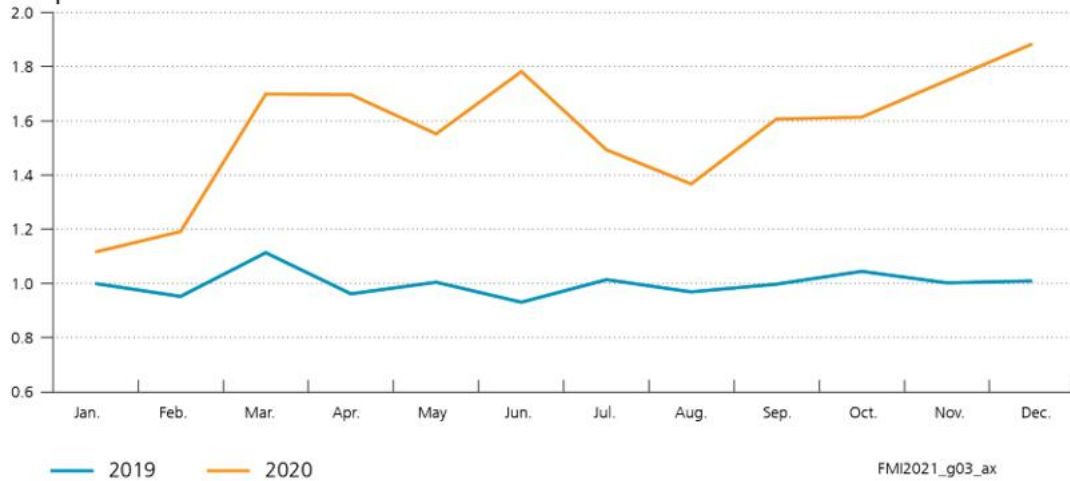
Graph – BNYM SA/NV – Value of transactions



Source : BNYM



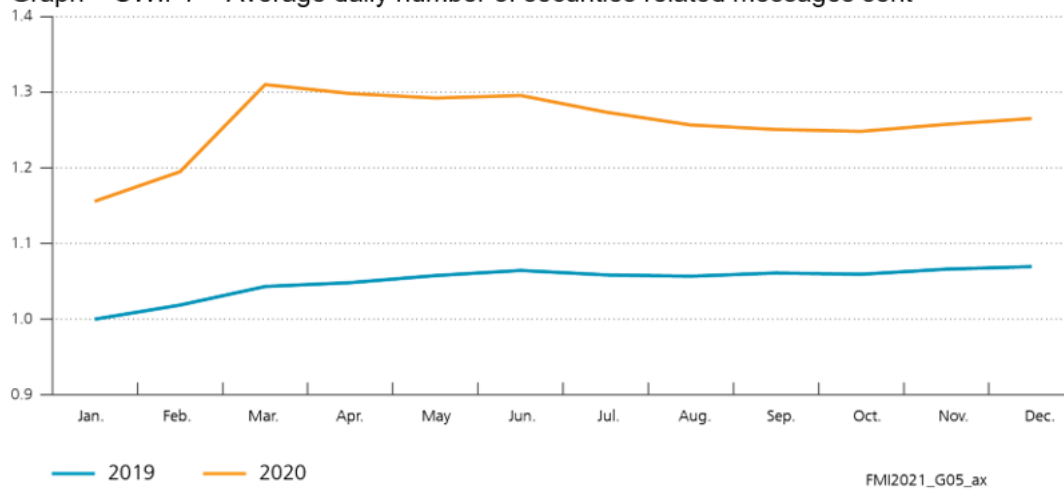
Graph – BNYM SA/NV – Number of transactions



Source : BNYM

This increase in activity in March 2020 is also reflected in the number of sent messages that were transmitted via SWIFT worldwide.

Graph – SWIFT – Average daily number of securities related messages sent



Source: SWIFT



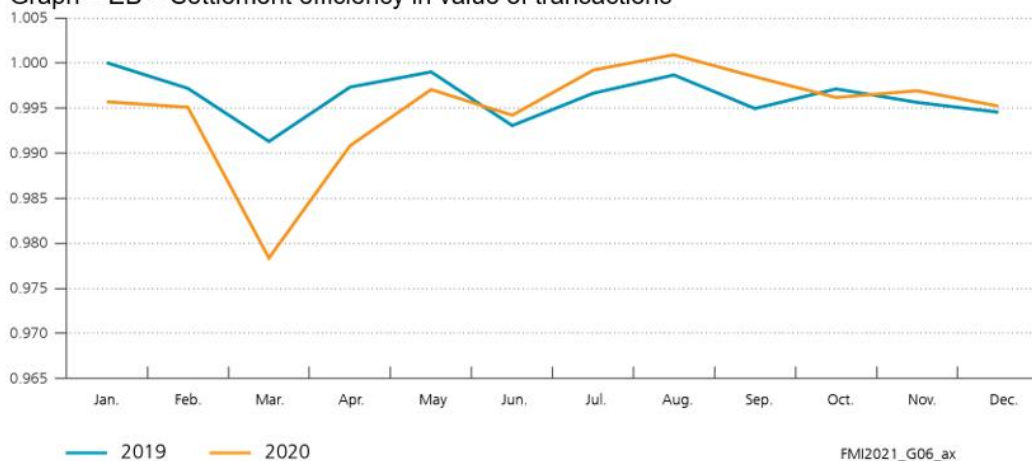
Settlement efficiency

As a result of the larger settlement volumes and participants entering into contingency mode, EB and BNYM SA/NV recorded higher rates of settlements fails. The settlement fail rate measures the percentage of securities transactions that are not settled on time in the system, i.e. the intended settlement date.

The increase in settlement fails in EB was due to instructions being unmatched or to participants lacking securities. EB exceptionally opened its system on Saturday 28 March 2020 in order to help participants to reduce their backlog.

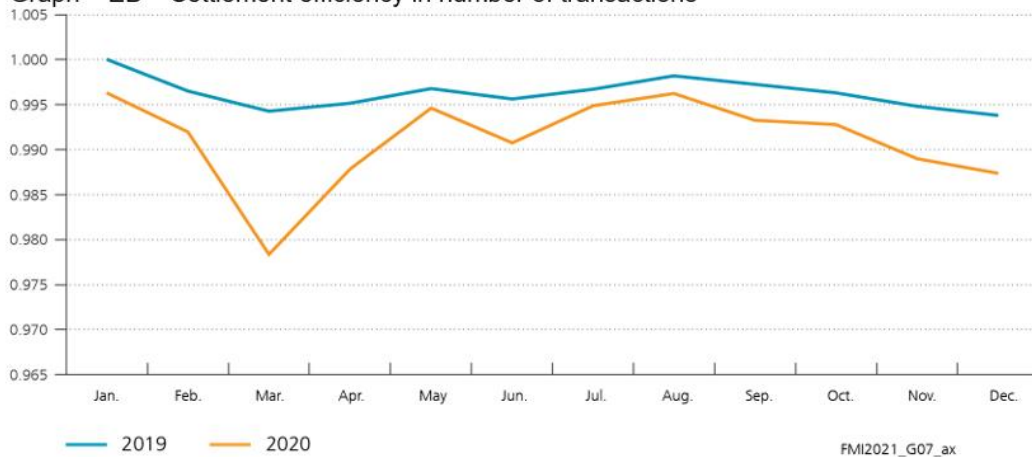
After the drop in the settlement efficiency (the inverse of the settlement fail rate) in March, the rates for settlement fails returned to normal levels, even reaching higher efficiency in terms of value of transactions compared to the same period the year before. This might indicate that the focus of participants was to settle the higher-value transactions.

Graph – EB – Settlement efficiency in value of transactions



Source : Euroclear

Graph – EB – Settlement efficiency in number of transactions

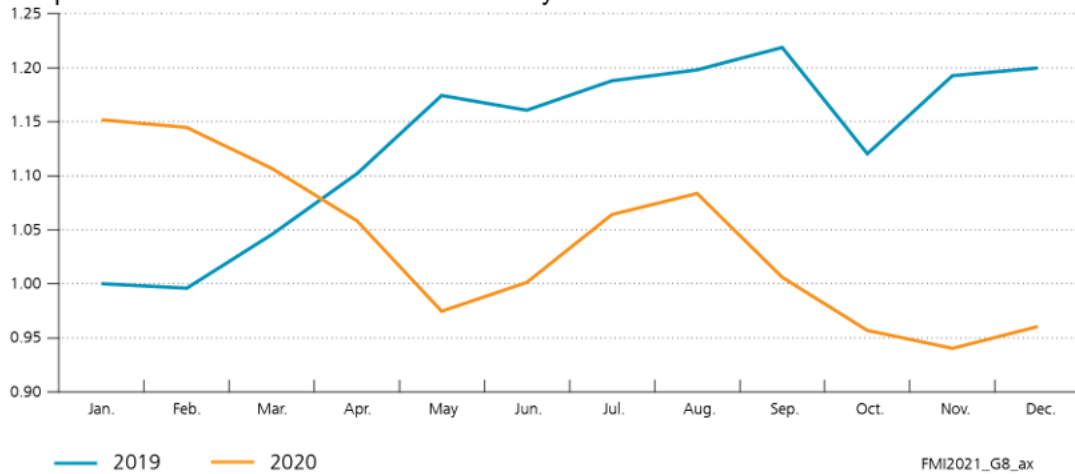


Source : Euroclear



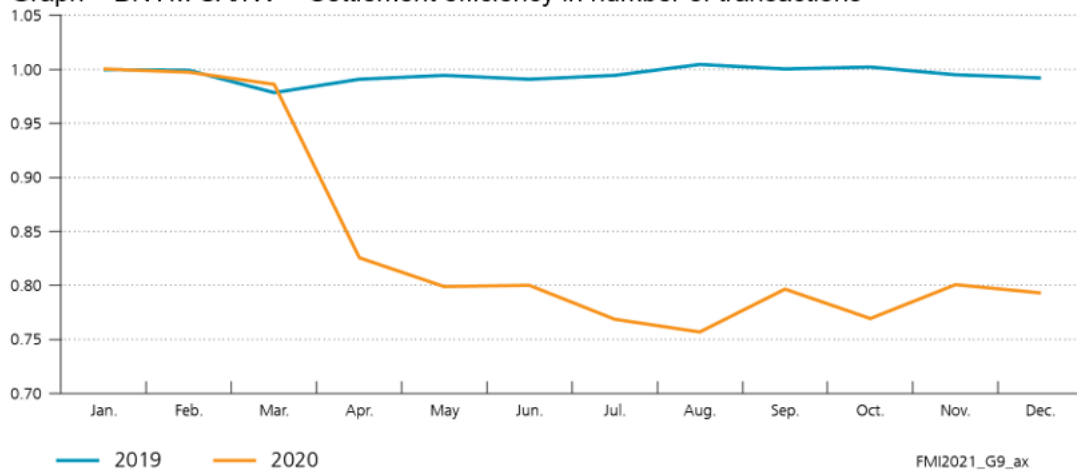
The market turmoil and the subsequent increase in transactions resulted in an increase in settlement fails at BNYM SA/NV as well. However, the rates for settlement failures did not fully return to normal. Since March, lower levels of settlement efficiency than in the corresponding periods of the previous year have been observed.

Graph – BNYM SA/NV – Settlement efficiency in value of transactions



Source : BNYM

Graph – BNYM SA/NV – Settlement efficiency in number of transactions



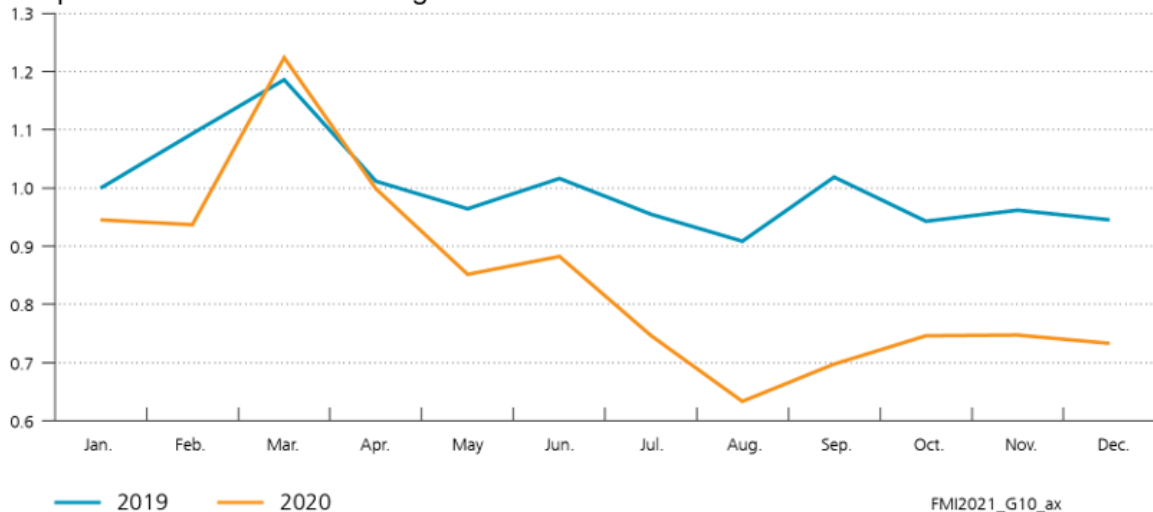
Source : BNYM



Securities lending

EB provides ancillary services, including securities lending. This service is fail-driven and aims at optimising settlement efficiency, meaning that when the system identifies an instruction to deliver securities but the participant who subscribed to the service does not (yet) have these securities in its account, the system will search if there are securities available for borrowing so the instruction to deliver can settle. As there were more settlement fails during the volatile times of March 2020, the amounts of securities lent peaked at that time, avoiding a further increase in settlement fails. As the settlement efficiency improved after March 2020, securities lending declined as well.

Graph – EB – Securities Lending in value of transactions



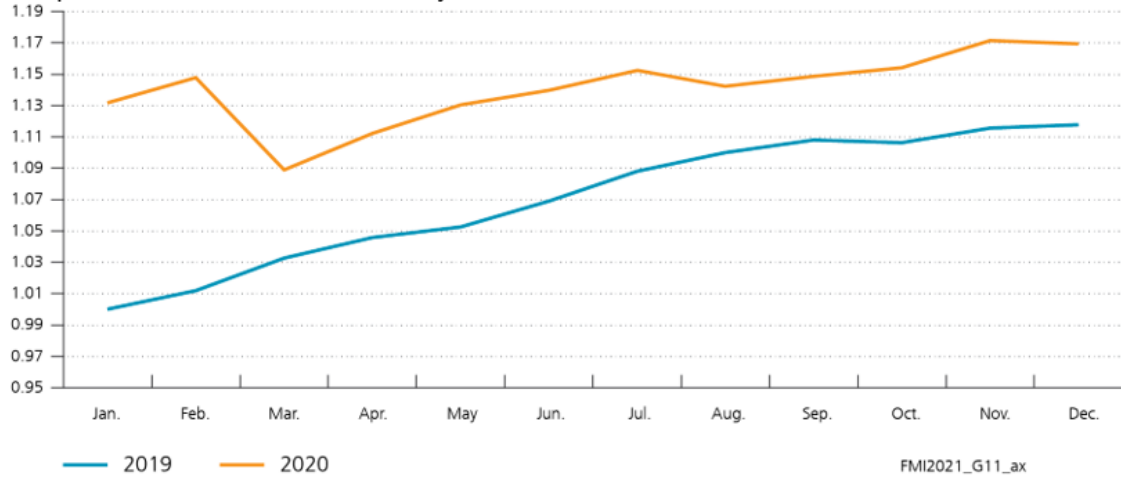
Assets under custody

The March 2020 crash in the prices of securities from companies that were affected by the COVID-19 pandemic and government lockdown measures is reflected in the value of securities held by participants in the books of EB and BNYM SA/NV.

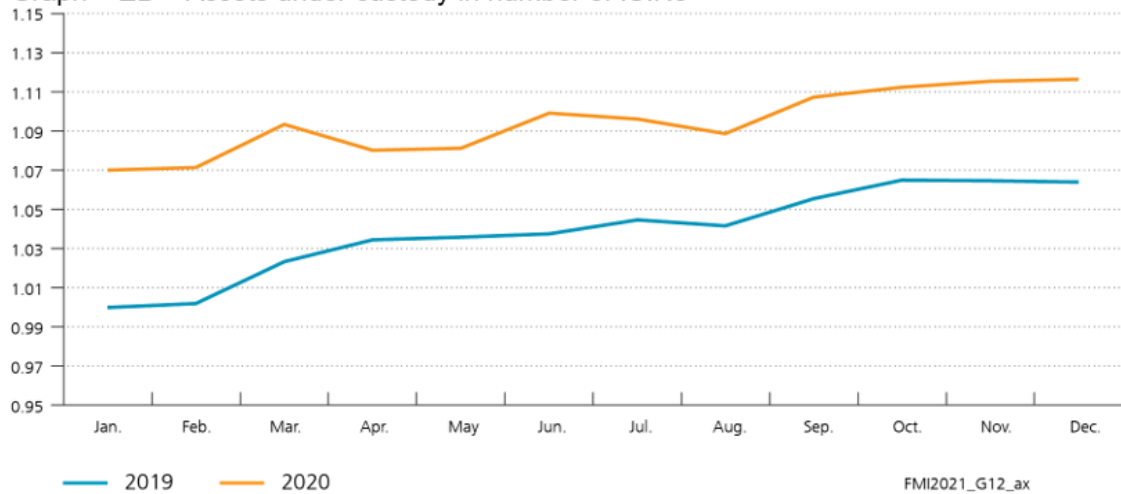
While the value of the assets under custody of EB rose compared to March 2019, there was a considerable drop in March 2020, despite the increase in the number of different securities held as new issues were brought to the market to raise capital. The market quickly recovered from this decline in the subsequent months.



Graph – EB – Assets under custody in value



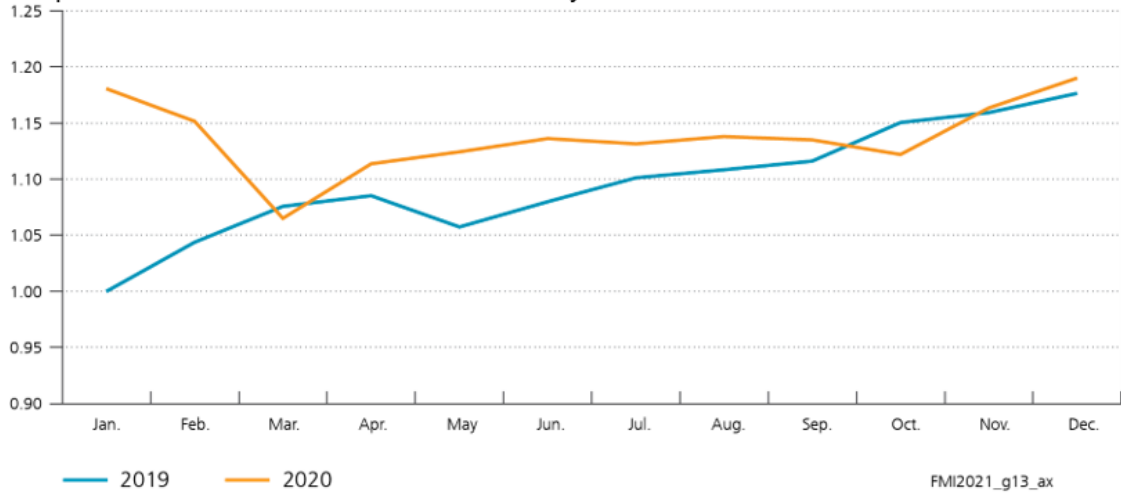
Graph – EB – Assets under custody in number of ISINs



Similar observations can be made for BNYM SA/NV. The market turmoil resulted in a decline in stock market value of about 35% (Euro Stoxx 50). This decline impacted the assets under custody at BNYM SA/NV. About 50% of the assets under custody at BNYM SA/NV is equity. The graph below visualises this impact, in which the quick recovery of the markets is also reflected. By mid-2020, more than half of the loss had been recovered and by the end of the year markets restored at pre-covid levels.



Graph – BNYM SA/NV – Assets under custody in value



Source : BNY Mellon

All data are indexed to January 2019 (= 1)