

# Securities finance: accelerating solutions for pension funds' regulatory challenges

The introduction of the Future Pensions Act (Wet toekomst pensioenen, or Wtp) heralds a fundamental transformation of the Dutch pension system. For pension funds, this entails not only a new framework for pension accrual but also a significant shift in responsibilities concerning financial management. Consequently, liquidity management is moving to the forefront of pension board agendas.

By Maurits Daarnhouwer, Beta Steiner, Joanna Ksenzova and Olivier Zemb



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Previously viewed as an operational task, liquidity management under the Wtp is now a strategic pillar within overall risk management. Simultaneously, the growing use of derivatives and central clearing obligations is elevating the importance of effective collateral management. While traditionally used to ensure smooth settlement cycles, securities finance has evolved into a key tool for sourcing liquidity efficiently. Pension funds are increasingly utilising securities finance to meet this growing demand for liquidity. In this context, repurchase agreements (repos) present a valuable instrument for sourcing liquidity temporarily, ensuring long-term investment strategies remain intact while effectively managing risk exposures.

In a recent roundtable discussing changes in the Dutch pension sector and how securities finance products naturally fit in offering solutions, Maurits Daarnhouwer, pension fund regulation expert, discussed the topic with securities finance front-

office and client-facing experts, Beta Steiner, Olivier Zemb, and Joanna Ksenzova.

## A fundamental shift in liquidity management

Daarnhouwer highlighted: 'The Wtp is a predominant topic among clients, fundamentally altering liquidity management. The transition from a Defined Benefit (DB) system to a more individual, Defined Contribution (DC)-like scheme has two critical implications. Firstly, pension assets are becoming more personal and transparent, necessitating faster and more flexible access to liquid resources. Secondly, the abolition of buffers and the coverage ratio framework means pension funds are more exposed to short-term market fluctuations. This demands more active and precise liquidity management, tailored to participant behaviour and market conditions.'

Zemb added: 'The Wtp has been, and will continue to be, challenging for Dutch pension funds. As with every challenge, solutions exist and should be explored as early as possible. Although the act came into force on 1 July 2023, the transition period lasts until 1 January 2028.'

## Proactive liquidity and collateral strategies

Daarnhouwer stated: 'It will be interesting to see which of several methods pension funds will use to enhance their liquidity management in the future. There is the more dynamic, segmented management, categorising assets by liquidity profile, such as within one day, one week or one month, and linking them to specific obligations. There is the use of stress tests and scenario analyses to simulate the impact of market stress on liquidity. They may also choose greater reliance on contingent liquidity sources, including repo markets, credit lines, cash pools or buffers or perhaps more active monitoring of liquidity in private equity and real estate.' Ksenzova stated: 'We are already seeing increased demand from pension funds for flexible repo solutions, high-quality collateral and collateral optimisation tools and strategies.'

Daarnhouwer noted: 'Demand was expected to rise in line with the increase in use of interest rate and inflation derivatives for hedging risk increases, particularly as traditional buffers

disappear. Furthermore, growing central clearing obligations (EMIR), now require pension funds to post initial and variation margins, typically in cash or high-quality government bonds. This results in pension funds likely having to hold more liquid, collateral-eligible assets and utilise repos to convert less liquid holdings into acceptable collateral.'

Zemb expanded on this point: 'This rebalancing should increase the need for bridge financing. We may consequently see a spike in demand for repo and/or credit line facilities to fill these gaps. This is a pressing issue, as funds have already been asked to increase liquidity buffers since the end of the mandatory clearing exemption.'

Post-transition, as management becomes more active, we may see settlement frictions, leading to increased borrowing needs to prevent failed settlements and associated CSDR penalties. Furthermore, as funds invest in more liquid assets, they could be incentivised to enrol in securities lending programmes to generate additional revenue from their newly acquired High-Quality Liquid Assets (HQLA). The strategic question will then be how to allocate HQLA between a lending programme and collateral for derivatives. Solutions exist to optimise collateral management without diluting lending returns. Ultimately, in case of an HQLA shortfall, transformation trades – swapping ineligible for eligible assets – are also available.'

The participants agreed that the Wtp increases the volatility of inflows and outflows, making them less predictable and causing a significant impact on asset allocation and liquidity management for pension funds. However, these challenges are not insurmountable and solutions can be found either internally or by partnering with a third-party specialist.

### The role of securities finance & central clearing

Steiner highlighted central clearing's growing role in managing liquidity needs, and Daarnhouwer agreed, adding: 'It is both a regulatory requirement and a useful tool because as the pension fund exemption for central clearing is being phased-out, more OTC derivatives will require clearing through Central

Counterparties (CCPs). CCPs demand cash margin payments, leading to higher cash requirements. This increases the necessity for pension funds to implement effective cash management solutions and meticulous liquidity planning.'

Steiner added: 'From the perspective of our existing lending clients, we see growing interest in third-party collateral management services, though the focus on CCP readiness is not yet as prominent. These changes however place additional pressure on cost management, and securities lending – a low-risk, low-impact solution – is a key element that can be integrated alongside repo and other strategies.'

According to Ksenzova: 'Current data from S&P Global Market Intelligence shows nearly € 200 billion in assets enrolled in securities lending programmes from lenders with a fiscal location in the Netherlands, with approximately 80% of lendable assets and assets on loan belonging to pension plans. The figure, however, excludes Dutch asset owners and managers incorporated in other jurisdictions, such as Luxembourg and Ireland.'

From a Dutch market perspective, pension plans hold 23% of the total value of Dutch securities (equities and bonds) available for lending, equal to some € 300 billion, surpassed only by mutual/retail funds (34%). This makes pension funds' participation in lending programmes vital for maintaining the liquidity and efficiency of the local market, especially with the move to T+1, the change of capital ratio requirements following the move to Basel IV, and other regulatory developments.'

### Roundtable wrap-up

Steiner summarised the discussion, noting: 'With a flight to a broader diversity of liquidity solutions, managing the overall cost of these strategies is increasingly important. Securities finance is now recognised as a key tool for sourcing adequate liquidity, optimising portfolio performance, and mitigating rising regulatory costs. It is clear that pension funds must carefully consider the various options for optimising their liquidity management going forward.' ■



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## SUMMARY

Under the Wtp, liquidity management has shifted from an operational concern to a strategic priority.

Cash management, collateral solutions, and low-risk tools such as securities lending are increasingly essential to meet rising liquidity demands.

Securities finance – particularly repos – is a key tool for sourcing adequate liquidity, optimising portfolio performance, and mitigating rising regulatory costs.