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ISSUE175 18 April 2017

India to introduce triparty repo

The Reserve Bank of India has set out a framework for a triparty repo market to enable participants to use underlying collateral more efficiently and facilitate the development of the term repo market in the country.

The draft framework, issued on 11 April for public comment until 5 May, proposes the introduction of triparty repo on both government and corporate bonds, and sets out rules for collateral eligibility, reporting, settlement and agents.

Eligible triparty agents must have "past experience of at least five years in the financial sector, [in] India or abroad, preferably in offering custodial services", as well as capital of at least INR 250 million (USD 3.87 million).

The introduction of a triparty repo market will be welcome news to market participants, whose securities lending business in India remains muted. India's National Securities Clearing Corporation cleared 77,730 securities lending trades in 2016, generating $9.23 million in lending fees. Those trades had a notional turnover of $1.79 billion.

Martin Corrall, who is on the executive board of the Pan Asia Securities Lending Association (PASLA) and group lead of a sub-working group on India, sees foreign participation as a key concern for the market.

He said recently: "It's expensive for foreign borrowers in India."

"Offshore entities are required to post cash as collateral with high interest rates and no rebate paid, which creates an unfair playing field, whereas domestic players are allowed to post securities."

"Concern on the Securities and Exchange Board of India's view of overseas direct investment and limited supply due in part to the securities borrowing and lending infrastructure, has led to minimal offshore activity. Market access is concentrated on single stock futures."

In an effort to develop securities borrowing and lending market and increase local and foreign participation, the National Stock Exchange (NSE), through which the majority of India's securities lending business flows, has implemented multiple changes.

A facility of preferred depository has been made available, allowing borrowers and lenders to more easily specify which pool account they want pay outs to be directed. "This facility has helped members receiving pay-out in their preferred depository account. This has also reduced the operational risk involved in making cash market pay-ins, as the window between securities borrowing and lending pay-out and cash market pay-in is very small," according to the NSE.

In other developments, NIFTY 50 securities are now accepted as collateral, and participants can transfer collateral placed in the form of cash and fixed deposit receipt to or from other segments.

Continued on page 2

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India to introduce triparty repo

Continued from p1

The NSE explained: “This would help participants immensely in collateral management and reducing overall cost of funding collateral.”

Commenting on India’s potential as a securities lending market in February, Zubair Nizami, head of global securities lending trading for the Asia Pacific at Brown Brothers Harriman, said: “It could have significant potential in the long term, especially given the size and scale of the Indian economy. However, until there are some wholesale changes to some of these aspects of the existing securities lending model, I don’t think this is a market that would garner a lot of attention in the next few years.”

ITI Group acquires UK broker

ITI Group has acquired UK broker-dealer and asset manager Uralsib Securities in the latest step of its services expansion plan.

London-based Uralsib Securities, now renamed ITI Capital, offers direct market access to emerging markets for global clients, and to global markets for its Russian clients.

Under the direction of ITI Group, ITI Capital will also offer prime brokerage services and a trading platform for algorithmic funds, as well as structured products and technology-focused asset management.

In a statement, ITI Group outlined its ambition to build a financial technology holding group focused on sell- and buy-side platforms, IT services, and investments into financial technology businesses.

Pavel Naumenko, CEO of ITI Group, said: “The acquisition of a fully licensed UK broker is a huge step for ITI Group and its clients.

“It cements our commitment to taking a leading position among brokers with a strong Russian and international presence.”

Eurex secures KfW as IRS client

German government-owned investment bank KfW has looked to Eurex Clearing for interest rate swaps (IRS) clearing services.

In a joint statement on the partnership, Eurex stated that onboarding of KfW significantly increases the liquidity of EurexOTC and makes its offering even more attractive.

Eurex Clearing has recorded a 30 percent increase in swaps volumes cleared by EurexOTC Clear since the beginning of 2017. The notional outstanding is now more than €1.2 trillion.

The European Market Infrastructure Regulation (EMIR) requires standardised IRS transactions to be centrally cleared, but KfW is exempted from this requirement.

The bank will voluntarily clear swaps in order to increase settlement efficiency of the transactions it uses to hedge against interest rate changes.

“With KfW we won an additional and very important member for our service EurexOTC Clear,” said Erik Müller, CEO of Eurex Clearing. “At a time of rising regulatory requirements and continuing geopolitical uncertainty, we deliver attractive and efficient solutions that we build out in constant dialogue with our customers.”

EU beneficial owners see drop off

Euro area insurance corporations and pension funds both saw their overall assets decrease in the final months of 2016.

Total assets of pension funds fell to €3,404 billion in Q4, from €3,476 billion in the previous quarter.

Likewise, insurance providers’ assets dropped to €7.7 trillion, from €7.8 trillion over the same period.

Data from the European Central Bank (ECB) broke down the balance sheets for both types of beneficial owners in the EU.

Inside Securities Lending Times

ISSUE175 18 April 2017

CCP Merger
Brazilian exchange BM&FBovespa has merged with Cetip, Latin America’s largest depository for OTC securities and derivatives
page 3

Collateral Lending
HQLAX has teamed up with R3 and five of its member banks to build a collateral lending solution for liquidity transfers.
page 4

Repo Market
EU repo traders were spared another dramatic liquidity drought during the March quarter-end
page 6

Prime Brokerage
Cowen Group is splashing $116 million on Convergex to set itself up as an independent trading platform in equities
page 9

Product Insight
As Lombard Risk’s Colline platform goes from strength to strength, Helen Nicol reveals the secret to its success
page 14

Data View
David Lewis of FIS Astec Analytics explains how timely and accurate data may be the perfect balm for soothing aches and pains
page 16

Upcoming Events
SLT is present at all of the major securities lending conferences around the world. Make sure you pick up a copy of the latest issue
page 18

Industry Appointments
Lance Wargo has left his role at BNP Paribas. He joined the bank in 2013 to spearhead its securities lending push in North America
page 21

BM&FBovespa and Cetip form new exchange

São Paulo | Reporter: Drew Nicol

Brazilian exchange BM&FBovespa has merged with Cetip, Latin America's largest depository for over-the-counter (OTC) securities and derivatives.

The merged entity has been rebranded as B3, and promises to offer an enhanced range of services in its capacity as an exchange for all major asset classes, including securities lending and OTC derivative trades.

B3 also provides central depository and risk control systems up until the final beneficiary and acts as central counterparty for trades executed in its markets

The new exchange is headquartered in São Paulo.

B3 promises to be "greater than the sum of its parts."

"With a diversified portfolio of products and services, B3 aims to maximise business opportunities in a dynamic, challenging and competitive market environment on a global scale".

Under the terms of the merger, BM&FBovespa temporarily increased its board of directors from 11 to 13 in order to bring in two Cetip executives for the remaining term of BM&FBovespa's existing board.

The newly formed exchange posted its first monthly trading data shortly after completing its formation, boasting month-to-month growth in its securities lending volume for March.

Lending volume hit BRL 64.90 billion (USD 20.62 billion) last month, up from BRL 56.75 billion (USD 18 billion) in February.

Transactions figures reached 127,680 compared to 105,389 the previous month.

Exchange-traded fund (ETF) transactions involving B3 totaled 277,156 in March, up from 175,896 in February.

ETF transaction value on the exchange reached BRL 3.79 billion (USD 1.2 billion) in March, compared with BRL 3.21 billion (USD 1 billion) in February.

For both pension funds and insurance providers, holdings of investment fund shares accounted for 44 percent of sector total assets at the end of 2016.

The remainder of pension fund balance sheets were divided between debt securities (24 percent) and equities (13 percent).

For insurance companies, investment fund shares made up the second largest category of holdings with 24 percent, with equities and loans accounting for 10 percent and 8 percent, respectively.

The asset drop-off was attributed to "a decrease in value of corresponding assets, marginally offset by transactions amounting to €4 billion".

Clearstream tackles German debt with link to LCH's RepoClear

Clearstream has begun offering a new settlement solution for German debt for customers that clear German bonds and repos through LCH.

The move follows LCH's extension of its RepoClear service to cash and repo trades on German government securities last month.

Trades cleared through LCH's Paris subsidiary can be settled in Clearstream Banking Luxembourg accounts. Combined with Frankfurt as an existing settlement location, Clearstream customers will be able to settle transactions either in central bank money via Frankfurt, or via Luxembourg in commercial bank money.

The new service for German bonds and repos will also take advantage of Cleastream's links to the Target2-Securities (T2S) platform, giving customers the ability to settle their German government securities in Frankfurt as the German central securities depository

R3's Corda steps up for distributed ledger technology collateral lending platform

New York | Reporter: Stephanie Palmer

Liquidity management company HQLAX has teamed up with R3 and five of its member banks to build a collateral lending solution for liquidity transfers.

Built on the R3 Corda distributed ledger platform, the proof-of-concept provides a digital collateral receipt (DCR) lending marketplace to help participants to redistribute liquidity more effectively and efficiently.

According to HQLAX, the marketplace could also improve transparency of collateral chains and mitigate systemic risk by allowing for orderly unwinding in the case of a default.

The group now plans to create a live pilot and production platform, and will engage with regulators to showcase the prototype and gain feedback.

David Rutter, CEO of R3, commented: "The implementation of new bank regulations for liquidity, mandatory clearing, and margin requirements for OTC derivatives has caused a significant increase in demand for high quality liquid assets."

"As a result, there is a heightened need for a marketplace that facilitates large-scale, cost-efficient collateral transfers across the global financial ecosystem."

"Corda exceeded the most demanding requirements," Rutter said.

Guido Stroemer, CEO of HQLAX, added: "The collaborative effort and proactive engagement by the project participants was truly impressive, and the value proposition to help shape the target operating model of the HQLAX platform resonated strongly with the bank participants. This project is an excellent example of the R3 business model of testing use cases in its lab and research centre in preparation for production-ready deployment."

The R3 member banks involved were CIBC, Commerzbank, Credit Suisse, ING, and UBS.

Thorsten Kanzler, divisional board member for group treasury at Commerzbank, said: "The digital collateral receipt lending marketplace is an important step on our way to build up a digital treasury product range."

"Once live, the lending place will support Commerzbank's treasury in managing regulatory requirements even more cost efficiently by facilitating collateral transfers on a distributed ledger technology platform," Kanzler added.

Ivar Wiersma, head of wholesale banking innovation at ING, said: "In line with our culture and our strategy, ING is eager to continue to collaborate and pursue this forward-thinking opportunity to progress HQLAX to a live pilot phase, in line with our ambition to get distributed ledger technology out of the lab, and delivering tangible business value."

(CSD), while benefiting from Luxembourg's securities lending and collateral management services as an international CSD.

LCH's new offering covers trades on German government and regional debt. Clearing members are able to use Clearstream Bank Frankfurt or Euroclear France as their CSD, or Euroclear Bank as a settlement agent.

Christophe Hémon, CEO of LCH SA, said: "The implementation of T2S brings with it an opportunity to expand the number of European trades eligible for balance sheet netting, providing greater operational and capital efficiency for our members. It will also allow our members to benefit from potential margin savings thanks to risk offsets among four main European debts."

RepoClear already clears trades on Italian, French and Spanish government securities. The availability of clearing trades on German debt will also continue to be offered through LCH in the UK.

BlackRock tweaks equity business

BlackRock has revamped its equities strategy into four distinct business lines, including the launch of a new series its Advantage products aimed at US mutual funds investors.

The bank's equity business will be broken down into sections known as core alpha, high conviction alpha, outcome oriented, and country and sector specialty products.

Core alpha products promise market returns plus consistent alpha with lower levels of risk, including the Advantage series, which is expected to include nine mutual funds.

According to BlackRock, the Advantage series brings new products and the conversion of certain existing funds with approximately $8 billion in assets. This will bring approximately $30 million of annualised savings to clients from lower fees.

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BlackRock will incur a charge of approximately $25 million in Q1 2017 reflecting certain one-time, severance and accelerated compensation expense associated with the repositioning.

In the second section, high conviction alpha products will cater for investors looking for higher risk/return products, while outcome oriented products are designed to provide clients with specific outcomes, such as income or sustainable investment strategies.

This will include an expanded range of income products to meet growing client needs for higher dividend yields, according to BlackRock.

Finally, country and sector specialty offerings bring specific country and sector exposures.

Mark Wiseman, global head of active equities at BlackRock, said: "The segmenting of our active equity offerings will sharpen the focus on different client needs, just as we have successfully done with our iShares exchange-traded funds product ranges."

"This reinforces our commitment to our active equity franchise for offering important building blocks in the portfolios of many clients and to delivering maximum value for clients with those products."

BlackRock predicts the strategy restructure will affect approximately $30 billion in assets under management (AUM), which equates to about 11 percent of total active equity AUM.

The bank confirmed that there will be no repositioning of active equity products currently managed outside of the US.

BlackRock's Wiseman continued: "Traditional methods of equity investing are being reshaped by massive advances in technology and data sciences."

"At the same time, client preferences are shifting, focusing not just on outcomes but on how both performance and fees impact value."

EU repo clears first Q1 hurdle, barely

London | Reporter: Drew Nicol

EU repo traders were spared another dramatic liquidity drought during the March quarter-end, but concerns remain for the health of the market.

In the International Capital Market Association's (ICMA) second quarterly report on market practice and regulation, it noted: "In the weeks leading up to quarter-end, the market had shown a high degree of uncertainty and nervousness, with repo rates being priced very wide (and with general collateral trading below -3 percent)".

Although general collateral and special rates were tighter than what is normally considered comfortable, it was "nothing as dramatic as seen over the 2016 year-end".

"This should not be surprising, given the extreme levels seen at the end of December, and the relatively asymmetrical risks related to anticipating demand and supply imbalances over statement dates."

"However, balance sheet pressures look to be much less constrained, while the EUR-USD basis has also normalised, which is reflected in quarter-end rates settling at slightly easier levels than originally anticipated."

ICMA's European Repo and Collateral Council warned at the start of 2017 that repo market stress "could heighten risks related to banks' and firms' ability to meet margin calls, which in turn could have systemic consequences".

The council described how a perfect storm of post-crisis regulation, the financial policy of central banks, along with other global market trends, are "very much acting in confluence to precipitate the perfect storm".

The month-end liquidity issues also caught the attention of the president of the German Federal Bank, who called for the European Central Bank's (ECB) asset purchase programme to be reviewed.

Strong EU-wide economic growth means the ECB should finally begin unwinding its "very loose monetary policy", according to German Central Bank president Jens Weidmann.

Weidmann described the ECB's public sector purchase programme, which cut its monthly buying target from €80 billion to €60 billion as of 1 April, as "a pure emergency instrument, for example, to avert deflation".

"One thing seems to me to be quite clear in view of the current prognosis: we are now a long way from a deflation, ie, an expectation-driven downward spiral in which wages and prices are mutually profound. I have always regarded this fear as exaggerated in the past," stated Weidmann in a speech at the Rotary and Lions Club in Lörrach, Germany.

"The extensive purchase of government bonds blurs the dividing line between monetary policy and fiscal policy."

"Central banks in the euro area have now become the largest creditors of the member states. I consider this to be problematic in several respects."

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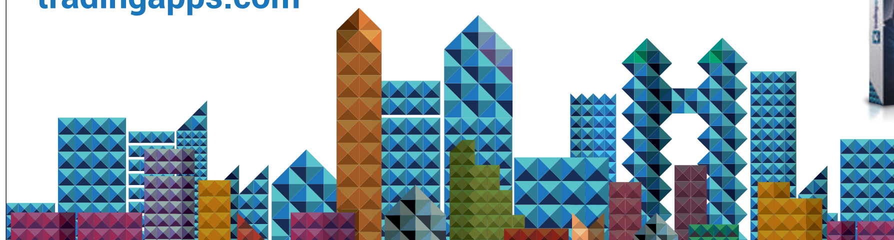

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Wiseman added: “The active equity industry needs to change. Asset managers who simply use the same techniques and tools from the past will limit their ability to generate alpha and deliver on client expectations.”

“The steps we are taking are an extension of the strategy we announced in 2016 to combine our quantitative and fundamental investment teams into a cohesive active equity investment platform that leverages the full scale and resources of BlackRock.”

ISLA allays MiFID II concern

The International Securities Lending Association (ISLA) has reassured members over the timing of transactions reporting under the second Markets in Financial Instruments Directive (MiFID II)

ISLA members had expressed particular concerns over the timing of reporting transactions with EU central banks, and whether they would be expected from the implementation date of MiFID II.

But ISLA clarified on 4 April, following publication of the MiFID II transaction reporting standards: “The reporting of transactions with EU central banks is not expected from the implementation date of MiFID II (3 January 2018), but is aligned with the start of Securities Financing Transactions Regulation (SFTR) reporting requirements.”

ISLA is planning to publish a briefing paper on the direct impacts of MiFID II on securities finance transactions soon.

The European Securities and Markets Authority (ESMA) issued its final standards for implementing SFTR on the same day.

ESMA’s final standards provide detailed provisions on a range of issues, including the use of ISO 20022 methodology for reporting, validation and access to data, the use of standardised identifiers such as LEI, UTI and ISIN, defined access levels for different public authorities, and the registration and extension of registration of trade repositories.

BIS recommends targeted reform

Authorities should consider consider mitigating the adverse effects of a reduction in repo availability via more targeted and temporary measures, a Bank of International Settlements committee has recommended.

The global financial system committee, which was chaired by Sir Jon Cunliffe of the Bank of England, examined the functioning of repo markets in light of recent monetary policy, focusing only on repo transactions backed by government bonds. The resulting report was delivered on 12 April.

According to the committee, repo markets are “in a state of transition and differ across jurisdictions in terms of both their structure and their functioning”.

“Exceptionally accommodative monetary policy” has played a role in providing ample central bank liquidity to the market and reducing the need for banks to trade reserves through the repo market, the committee said

But at the same time, central bank asset purchases have increased the reserves seeking investment in the repo market, “putting pressure on the balance sheets of repo intermediaries” while reducing “the quantity of high-quality collateral in many jurisdictions”.

The committee conceded “it is too soon to establish strong links between the different drivers and the observed changes in markets, or to reach clear-cut conclusions on the need for policy measures”.

A further study undertaken within the next two years was recommended, to better judge the impact of regulations that act on the size

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Cowen snaps up Convergex for $116 million

New York | Reporter: Drew Nicol

Cowen Group is splashing $116 million on Convergex to set itself up as an independent trading platform in equities.

The cash and stock deal has been struck with Convergex owners BNY Mellon and GTCR, a private equity firm.

Convergex is an agency-focused global brokerage and trading-related services provider with a client base of 2,500 hedge funds, asset managers, broker-dealers, trusts and exchanges.

Its business units include equity sales and electronic trading, commission management, prime services and global clearing.

In a statement on the acquisition, Cowen said: "With combined pro forma brokerage execution revenues of over $400 million in 2016, the transaction solidifies Cowen as a clear leader in US trading volume and expands Cowen's reach to 108 countries around the globe, including China."

Cowen president Jeffrey Solomon said: "We are thrilled by today's announcement and welcome Convergex's extremely talented team to Cowen."

"Together, our combined best-in-class global execution capabilities, along with Cowen's high-quality research and corporate finance advisory services, will enable us to continue helping our clients to outperform in challenging markets."

"The addition of Convergex's global platform will also establish meaningful scale for Cowen's equities business by significantly bolstering our capabilities in prime services, commission management, algorithmic and electronic trading, as well as clearing services."

Eric Noll, president and CEO of Convergex Group, commented: "The ability to combine with a great research based firm like Cowen, which has complementary businesses with minimal client overlap, creates a tremendous opportunity for our people and our clients."

or composition of banks' balance sheets, the treatment of collateral, permissible netting and the effects of cross-jurisdictional differences in the way repo exposures are calculated for the purpose of regulation, taxes and fees.

"Prior to such a review, authorities in some jurisdictions might consider mitigating the adverse effects of a reduction in repo availability via more targeted and temporary measures," the committee said the report.

"These include measures to reduce the scarcity of certain collateral, as well as other policies implemented in certain jurisdictions which, though initiated with the objective of facilitating monetary policy, have nonetheless improved repo market functioning."

Nasdaq and HKEX strengthen bond

Hong Kong Exchanges and Clearing Limited (HKEX) has extended its relationship with Nasdaq, appointing it to upgrade the infrastructure of its derivatives market.

Nasdaq will implement upgrades to HKEX's trading, clearing and risk management technologies, providing its Nasdaq Multi Matching Engine, plus its multi-asset derivatives clearing engine Nasdaq Clearing Engine, and its risk management solution Nasdaq Real-Time Risk.

The new solutions are intended to improve the performance, flexibility and resilience of trading and clearing, and to help central counterparties and exchanges to manage new risks around financial derivatives.

They will be based on the Nasdaq Financial Framework, an architecture allowing for integrated applications across the trade lifecycle, using a single operational hub.

The clearing solution will be integrated with the matching, making for a more harmonised back office, while the whole system is built

to accommodate continuous change. Other third-party trading and post-trade systems should be able to integrate easily, making for a reduced total cost of ownership.

Richard Leung, co-head of IT at HKEX, commented: “We have been able to provide superior capability and very reliable market infrastructure, high priorities at HKEX, with the Nasdaq technology we use in our derivatives market.”

He added: “We look forward to completing our upgrade smoothly and receiving continued high-quality technical support from Nasdaq.”

HKEX and Nasdaq have also agreed to extend their existing relationship for at least another five years. The institutions have worked together as partners since 1994.

Lars Ottersgård, executive vice president and head of market technology at Nasdaq, commented: “Nasdaq is proud of the technology partnership that has existed between our respective organisations for nearly 25 years.”

He added: “HKEX is one of the global capital markets’ true innovators who are committed to the continuous introduction of new technologies to bolster and strengthen the product and services offerings for their clients and partners, along with a rigorous focus on shaping the future of our industry.”

The technology upgrade is expected to be complete in late 2018.

Brexit is a challenge to responsible financial globalisation, says Carney

How the Brexit negotiations conclude will be a litmus test for responsible financial globalisation, Bank of England head Mark Carney has said.

Carney’s speech on financial services, delivered at Thomson Reuters in London’s Canary Wharf on 7 April, came a week after the UK triggered Article 50 and commenced the two-year period for negotiating its exit from the EU.

“The UK and the rest of the EU have exactly the same rules governing our systems,” Carney (pictured) said. “And we have the most highly developed frameworks for intensive supervisory cooperation. Capital flows seamlessly across our borders.”

“The current EU legal regime allows firms to passport throughout the union, supervised by the home supervisor.”

As it stands, the EU and the UK are “ideally positioned to create an effective system of deference to each other’s comparable regulatory outcomes, supported by commitments to common minimum standards and open supervisory cooperation”.

Such an outcome would be “entirely consistent” with the UK government’s aim of a “new, comprehensive, bold and ambitious: free trade relationship with the EU that “embraces goods, services and network industries”.

But financial services are only part of a much broader negotiation, Carney conceded, so contingencies need to be put in place in case the status quo changes.

He said: “How the Brexit negotiations conclude will be a litmus test for responsible financial globalisation.”

“Whatever is agreed [during Brexit negotiations], there are risks to financial stability both in the transition to the new relationship and in the new steady state.”

“These risks include disruption of services, a further weakening of investment banking profitability and the potential for greater complexity in firms’ legal structures. Increased complexity would place greater

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demands on firms' risk management and on supervisory oversight, and pose challenges for effective resolution. We expect firms to plan accordingly."

Financial services have proven to be an early point of contention between the UK and the 27 other EU member states, with a German politician recently reviving the prospect of legislating to require euro currency clearing to be carried out in the eurozone.

The prospect won't fill the City of London with joy, as the loss of its ability to clear euro-denominated transactions would put hundreds of thousands of jobs at risk, according to a recent report from EY.

Euronext and ICE Clear partner up

Euronext has partnered with ICE Clear Netherlands for access to clearing services for its financial derivatives and commodities markets.

Clearing operations will be run from Amsterdam, while a new asset financing solution for inventory management and physical delivery for commodities will be built by Euronext and operated from Paris.

Euronext will contribute a €10 million upfront investment in ICE Clear Netherlands.

Both parties have promised to cut headline clearing fees, treasury management fees by 15 percent.

The agreement will begin in Q2 and run for 10 years.

Euronext will appoint one representative to the ICE Clear Netherlands risk committee, who will chair a product committee dedicated to Euronext's clearing service.

In respect of its cash equity markets, Euronext has launched a preferred clearing service, providing trading participants with the choice of a central counterparty (CCP) of Clearnet and EuroCCP, of which it owns a 20 percent equity stake.

According to Euronext, this service will be open to other CCPs "in due course".

The new relationship acts as Euronext's contingency plan after the recent collapse of merger talks between the London Stock Exchange and Deutsche Börse scuppered Euronext's plans to purchase LCH SA.

Euronext has said its purchase of the French clearinghouse, worth €510 million, remains a "strategic priority". It would provide a permanent clearing option for Euronext's clients once the agreement with Clearnet expires at the end of 2018.

The European Commission prohibited the merger between Deutsche Börse and the London Stock Exchange in late March on the grounds that it would cause a "de facto monopoly", and that the proposed measures to counter this were not enough.

Although the London Stock Exchange Group's sale of LCH SA would have resolved concerns around single stock equity derivatives, it would not have addressed the creation of a monopoly in fixed income clearing.

As part of its initiative to access clearing options, Euronext also acquired a 20 percent stake in EuroCCP and subsequently launched the preferred clearing model for cash equities.

European Parliament takes steps to bolster vulnerable MMFs

The European Parliament has finalised and approved new rules to make money market funds (MMFs) more resilient.

The parliament outlined measures intended to improve MMFs' resistance to stress, and to address vulnerability to 'panic runs' on their money.

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Funds must diversify their asset portfolios and invest in higher-quality assets. They must also meet new liquidity and concentration requirements and implement stress testing processes to be completed quarterly, at a minimum.

MMF assets will also have to be valued at least once a day, with results published daily.

Rapporteur Neena Gill, member of the committee on economic and monetary affairs at the European Parliament, said: "I believe this is a win-win deal for both major European MMF sectors, variable and constant net asset value (CNAV) MMFs, respectively. The key aims of preventing future systemic risks and runs on funds have been addressed."

Commenting on the new rules, Amanda Rowland, asset management regulation partner at PwC, suggested that the new rules could prove challenging to implement. She said: "The most critical issue will be assessing whether current funds offering a CNAV will be able to continue to do so under the new criteria."

"Many fund managers will be faced with difficult choices around changing their portfolios to meet more stringent CNAV requirements or moving towards variable net asset value funds. Some may choose to shut down their MMFs altogether. Funds remaining as CNAV will need to prepare to use liquidity fees and redemption suspensions under certain circumstances, and all MMF managers will have to address the detailed rules around eligible assets, portfolio maturity, liquidity, valuation and transparency."

"Those who have not already done so need to start seriously considering these strategic choices and begin what is likely to be quite a complicated journey around client communications, governance procedures and revisions to the prospectus."

Members of the European Parliament also proposed a new category of MMF, the low-volatility net asset value (LVNAV) MMF.

LVNAV MMFs would have a diversified portfolio, subject to concentration requirements, and they would be subject to strict daily and weekly liquidity requirements.

The funds would also be required to describe assets more precisely, and assets would also be subject to strict conditions.

The new categorisation is intended to provide improved transparency in order to ensure investors get better quality information earlier.

Gill said: "I am particularly pleased that we found a viable operational model for LVNAV MMFs, which was included at the European Parliament's initiative."

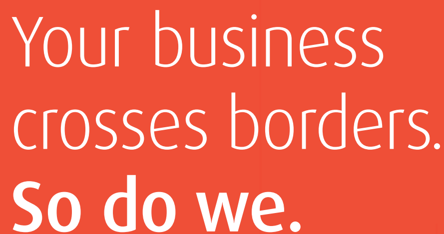
DTCC and SIX team up for LEIs

SIX Securities Services has partnered with DTCC to provide legal entity identifiers (LEIs) for Swiss entities.

The LEI system is intended to provide more insight into legal entities, reducing cross-platform risk exposure, improving transparency, and helping stakeholders better understand exposures and global systemic risk.

Under MiFID II, due to come into effect in January 2018, all legal entities involved in a trade will be required to include their LEIs in European trade reporting. The partnership will pair SIX Securities Services, the Swiss central securities depository, with DTCC's Global Markets Entity Identifier utility to create the required LEI numbers.

Ron Jordan, managing director of data services at DTCC, said: "The true value of the global LEI system will be realised when regulatory reporting covering all asset classes in every jurisdiction is required to use LEIs to identify trading parties."



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So long, silos

Lombard Risk's Colline platform has gone from strength to strength in the past year. Product director Helen Nicol reveals the secret to its success

The list of clients for Lombard Risk's Colline platform is on the rise. What's the formula to this success?

The introduction of regulation for the uncleared over-the-counter (OTC) market caused many organisations to review their operational processes and consider what cost efficiencies could be found. Colline's cross-asset functionality, on a single platform, which can be installed or hosted in the cloud, has proven to be beneficial in creating straight-through processing gains, silo reductions and infrastructure savings. By working closely with our client base, regulators and major market participants, Lombard Risk continually adds relevant, critical functionality. The Colline solution and its team of dedicated collateral professionals strive to support its users with their needs of today as well as their requirements for tomorrow.

Lombard Risk is also adding on new features to Colline, such as a new exchange-traded derivatives module. What are the drivers behind this?

Our vision is to achieve enterprise wide-collateral and margining across all asset classes. Colline was originally developed as an OTC platform, but extended to include repo, OTC clearing, securities lending, and exchange-traded funds clearing. The addition of the exchange-traded derivatives (ETD) module was an obvious extension.

With the move towards more regulation in the uncleared OTC space, many clients, particularly on the buy side, were expressing interest in an ETD offering and asking whether we were prepared to support their requirements as they consider both OTC clearing and ETD offerings. The release of this module in Colline V15, which was delivered in January 2017, has seen several clients begin implementation.

Where do you see Colline going from here? Are new markets or services on the horizon?

We have an aggressive plan for delivery of additional functionality across all asset classes over the next 18 to 24 months as more regulation comes into force.

The deadline for updating master securities forward transaction agreements, due to stricter controls around to-be-announced trade margining, is scheduled for December 2017, while the second Markets in Financial Instruments Directive deadline is scheduled for January 2018.

As such, clients are requesting support in streamlining and automating processes as well as insisting on a greater level of interoperability among providers.

Additionally, there are many new participants in the market, especially multinational corporations that are now subject to these regulations. As a result, volumes continue to increase and the need to focus on control and operational efficiencies continues.

What are your clients highlighting as the biggest challenges they face?

Undoubtedly, regulation and the burdensome operational impact with the associated documentation requirements are creating the biggest challenge at present. This is true for buy-side clients that are still in the midst of putting the appropriate legal documentation in place.

Other challenges include streamlining of workflows to assist with increased volumes and complexities and ensuring the end to end connectivity for daily activities.

Would you consider tight regulatory deadlines coupled with back-office budget cuts to be the primary reason for the rise in interest for Colline's services?

It's certainly a major factor, however, we have also seen an increase in the number of organisations looking to eliminate silos and provide consistent margining functionality to their own clients and counterparties—hence the need for a single enterprise-wide platform supporting multiple asset classes. Colline's modular approach enables clients to select the functions they require and adapt as their business grows or changes. **SLT**

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Optimisation, that's what you need

David Lewis, senior vice president at FIS Astec Analytics, explains how timely and accurate data may be the perfect balm for soothing regulatory aches and the increasing pains of rising business costs

As the industry continues to develop into a more comprehensive, multi-disciplined, more heavily regulated, and indeed more reported business, efficiency and optimisation will be increasingly important. While 2016 may well have been a good year for the industry income- and activity-wise, few are expecting the next couple of years to be an improvement on that, and some believe incomes may contract slightly at the same time that the costs of doing business are rising. Optimisation of collateral, counterparty, trade type and capital usage will all play their individual parts, but acting together, backed by timely and accurate data, they will help programmes to achieve their best.

In the modern securities finance world, the key to programme performance is, increasingly, optimisation. Working within ever-stricter regulatory boundaries and with increasingly scarce resources, a securities finance programme needs to be optimised to perform properly among its peers, as well as against the other resource-hungry businesses that must be battled for attention, counterparty balances and capital allocations.

Looking at optimisation from a macro perspective, our industry has already made great strides forward in combining what used to be disparate business lines, merging fixed income repo with securities lending and folding in collateral management across the enterprise to make a securities finance and collateral business. There are a number of different pressures that have brought about this change in approach, but the need for efficiency or the optimisation of industry practice has been a significant driver of change, which has been, in turn, underpinned by the increasing availability of data analytics.

Arguably the first development towards optimising a programme was about the 'who' more than the 'what'. Pre-crisis, it could be said that much of the power in a trading relationship was held by the lender and beneficial owner side of the market, with a great deal depending on the willingness of an asset owner to approve the worthiness of a borrower. Post-crisis, there was a pivot towards the borrowers looking much more carefully at who they borrow from, given that they are commonly pre-delivering higher quality collateral, plus a margin. Data analytics on the stability of the lenders rapidly became a vital part of the borrower to lender relationship.

Jump forward to today, and the results of this trajectory of change can be seen very clearly.

Discussions are ongoing, largely under the auspices of the new Securities Financing Transactions Regulation reporting requirements, that will potentially change the whole dynamic of the agency lender disclosure process. Some borrowers are advocating knowing the identity of the underlying lender pre-settlement so that they can actively approve or reject them based on the relative costs of doing business with that lender, including, of course, the capital weighting certain counterparties may attract. This kind of data-driven trade optimisation may become absolutely vital for borrowers to ensure each and every trade undertaken is a profitable one or, at the very least, one that contributes positively to their book.

Optimising the use of their balance sheet will demand that borrowers have access to intra-day data on their overall book of business, including collateral, liquidity and funding ratios. Alongside this information, they will need to juggle their various objectives, which may well conflict from time to time—meeting revenue targets versus balance sheet values at reporting time, for example. Without accurate and timely data on exposures, balances and what type of collateral is held where, this kind of optimisation will be near impossible.

'Enterprise collateral' has been one of the many new phrases to enter the securities finance lexicon over the past few years, and it now forms a central pillar of an effective securities finance desk. In discussions with our clients, we have found that there are as many interpretations of just what collateral optimisation means as there are market participants, and those answers can change according to what time of the year, month or even day that you ask the question.

One thing all these conversations do have in common, though, is the reliance on data quality and completeness. Gone are the days of homogenous collateral schedules for clients, but we are not quite yet in the age of digital schedules, centrally stored and managed by collateral systems and triparty agents.

When looking for standardised reference data, there are even some instances when definitions of instrument types can clash. Without effectively managed and accurate data, optimisation of collateral can only achieve so much. For example, data might be incomplete, because, you have assets in Asia that cannot be counted towards your global position, the whole enterprise collateral effect and benefit can be lost.

With the combined disciplines now becoming organised under one banner of securities finance and collateral management, traders have many more tools and options available to them, allowing them to optimise the trade type to suit their needs at that moment. Subject to the capital cost, the availability of the required collateral, and their profitability threshold, traders can select a synthetic trade, repo, buy/sell-back or stock loan as required, not to mention varying types of durations and routes to market to suit the moment. Making these decisions effectively, however, requires optimised data on intra-day pricing to ensure you earn or pay the right fee, use or receive the most cost-effective or suitable piece of collateral, and understand the impact that trade will have on the overall position of the trading book compared with the prevailing liquidity, capital and profitability targets.

As the industry continues to develop into a more comprehensive, multi-disciplined, more heavily regulated, and indeed more reported business, efficiency and optimisation will be increasingly important. While 2016 may well have been a good year for the industry income- and activity-wise, few are expecting the next couple of years to be an improvement on that, and some believe incomes may contract slightly at the same time that the costs of doing business are rising. Optimisation of collateral, counterparty, trade type and capital usage will all play their individual parts, but acting together, backed by timely and accurate data, they will help programmes to achieve their best. **SLT**

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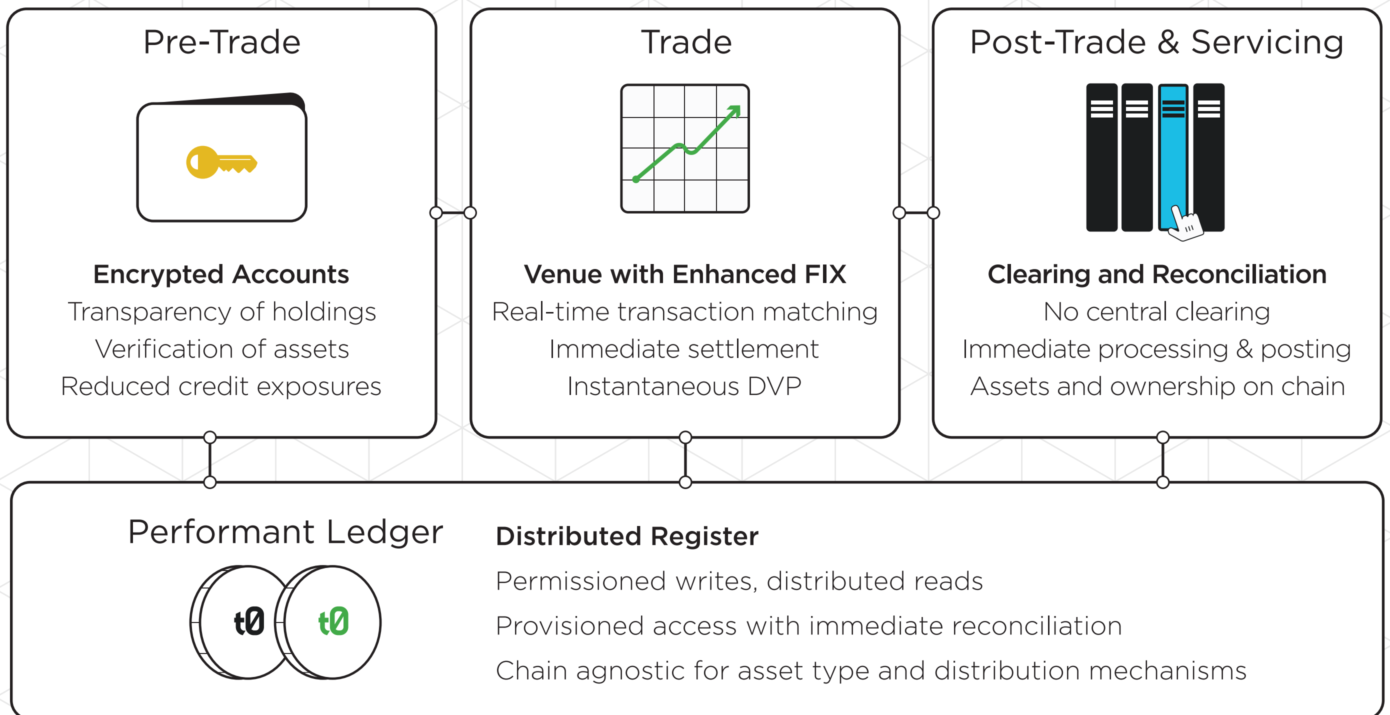

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Comings and goings at BNP Paribas, OCC, DTCC, Pirum and more

Lance Wargo has left his role at BNP Paribas Securities Services.

Wargo joined the bank in New York in 2013 to spearhead its securities lending push in North America.

He joined the bank from Wells Fargo, where he spent 13 years, most recently as head of trading and investments for securities lending.

It's not clear who will replace Wargo at BNP Paribas. William Mauer, who was drafted into Wargo's agency lending team following his appointment in 2013, joined SmartStream last year.

Vice president Claire McKinlay Reilly and director and head of trading and investments Michael Saunders remain a part of the North American agency lending team at BNP Paribas.

OCC has launched a raid on Wall Street with a number of senior hires, against the backdrop of strong volumes growth.

The Chicago-based clearinghouse's most recent appointments include Citi's John Davidson, who is joining as president and COO, and BNY Mellon's David Ridgway, who has become senior vice president for enterprise risk management.

Davidson will take up his new role on 8 May following the departure of Michael McClain. He reports to OCC chairman and CEO Craig Donohue.

At Citi, Davidson served as chief compliance officer. He joined the bank in 2008 and previously held the position of the chief administrative officer for the risk division.

Davidson also spent 12 years at Morgan Stanley, serving as managing director and operations officer for global operations and services.

Donohue said: "John Davidson brings to OCC extensive experience in clearinghouse financial risk management, along with broader knowledge in operations, IT management, enterprise risk management, and compliance."

McClain left his role at OCC at the end of March to join the Depository Trust & Clearing Corporation as general manager of equity clearing.

In his new role, McClain will be responsible for leading the equity clearing day-to-day, and for running strategic initiatives. He will report to Murray Pozmanter, managing director and head of clearing agency services.

Commenting on McClain's departure, Donohue said: "Mike McClain made an impact at OCC on many levels. He effectively presented to market participants and policymakers about how our company performed and the value we bring every day to the financial markets."
Ridgway has joined the clearinghouse from BNY Mellon, where he was head of risk for North America for just over three-and-a-half-years.

At OCC, Ridgway reports to John Fennell, executive vice president and chief risk officer.

"I am very pleased that we continue to attract talented people in financial services like David Ridgway to OCC," Donohue added.

"David's experience with firms like BNY Mellon, BlackRock and Barclays will mesh nicely with John Fennell's nearly 25 years of extensive clearing, settlement and risk management knowledge and expertise at OCC, and will help our organisation deliver a more mature risk-oriented culture to better serve market participants."

The new appointments came as OCC reported strong growth in securities lending in March, along with record breaking futures volume.

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Securities lending activity was up 25 percent in new loans last month, compared to the same time last year. Year-to-date lending activity increased 21 percent from 2016 with 551,730 new loan transactions in Q1 2017. The average daily loan value at OCC in March was $155.3 billion.

Futures cleared by OCC reached its highest volume ever after a 68 percent boost saw 12.4 contracts completed last month, compared to the same time last year.

Global clearinghouse LCH has appointed Daniel Maguire as group COO, effective immediately.

Maguire has taken on the role in addition to his current responsibilities as global head of rates and foreign exchange derivatives, a role he has held since May 2016.

As COO, he will be responsible for achieving new business growth, maintaining customer relationships and driving innovation and efficiency.

He is also charged with developing an integrated global product strategy, working alongside CEOs of the group's various central counterparties, and with the group's chief risk officer.

Maguire joined LCH in 2008, and has held positions including head of SwapClear in the US, and global head of SwapClear.

Clearstream's James Cherry has moved to Pirum Systems to focus on its Securities Financing Transactions Regulation (SFTR) and central counterparty (CCP) products.

Cherry took up the role of business development manager in April and reports to Philip Morgan.

Pirum partnered with IHS Markit in February to build a SFTR reporting solution by the end of 2017.

Cherry's role will also involve promoting Pirum's fixed income products. He will continue to be based in London.

At Clearstream, Cherry was vice president for global funding and financing for just under three years.

Speaking on the appointment, a Pirum spokesperson said: "Pirum is delighted to welcome James Cherry on board. He will be working for phil morgan in the business development team."

"He will be assisting us with our SFTR, CPP and trading venue connectivity, as well as all other expansion areas."

"James brings a wealth of knowledge with him and we are especially excited about his connections in the fixed income sector where we are seeing significant interest in our product suite, including SFTR reporting."

Californian-based asset manager PIMCO has named new managing directors to lead its investment strategies and regional offices.

The new managing directors include Rene Martel, who is head of pension solutions in the Americas with a focus on liability-driven investments, asset allocation and asset-liability management strategies for pension funds and insurance companies.

Roger Nieves has been named head of the enterprise coverage team within PIMCO's US global wealth management group.

He is responsible for PIMCO's coverage of strategic relationships with US-domiciled broker-dealers, banks and trust banks.

Michael Cudzil has become the senior member of the liability-driven investment portfolio management team.

He previously served as chair of the Americas portfolio committee, and as a rotating member on the PIMCO investment committee.

Sachin Gupta is the new head of the global desk and a member of the European portfolio committee, along with a rotating member of the Asia-Pacific portfolio committee. Alec Kersman, meanwhile, has been named head of PIMCO in Latin America and the Caribbean.

Custom House Global Fund Services has expanded its presence in China, opening a new office in Beijing and hiring two new relationship managers.

Nancy Wang has joined the Beijing office as a relationship manager, responsible for business development and client collaboration. Yichen Huang will hold the same position at the Shanghai office. **SLT**

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