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ISSUE180 27 June 2017

CCPs too important to carve up but need stronger EU protection, say central banks

Fragmenting European markets by jurisdiction or currency would reduce the benefits of central clearing, Bank of England governor Mark Carney has said, as Benoît Cœuré, member of the executive board of the European Central Bank (ECB), issued a warning over what would happen if a central counterparty (CCP) clearing repo trades failed.

In a speech at a breakfast event at Mansion House in London, Carney welcomed the European Commission's proposals for a two-tier regulatory system for CCPs, but warned against carving up London's clearing market once the UK leaves the EU.

Carney pointed out that the UK houses some of the world's largest CCPs, including LCH in London, which clears swaps in currencies for firms in 55 jurisdictions, handling more than 90 percent of cleared interest rate swaps globally and 98 percent of all cleared swaps in EUR. "All currencies, products and counterparties benefit from the resulting economies of scale and scope."

He said: "Fragmentation is in no one's economic interest. Nor is it necessary for financial stability. Indeed it can damage it. Fragmenting clearing would lead to smaller liquidity pools in CCPs, reducing the ability to diversify risks and diminishing resilience. And higher costs would reduce the incentives to hedge risks, increasing the amount of risk that the real economy would have to bear."

The European Commission's proposals for a two-tier regulatory system, which were announced earlier in June, "recognise the importance of effective cooperation arrangements between the relevant EU authorities and their overseas counterparts", Carney said. "They include potential provisions for deference to the rules to which a CCP is subject in its home jurisdiction in line with the intent of the G20."

"Elements of these proposals could therefore provide a foundation on which to build robust cross-border arrangements for the supervision of CCPs. This should be based on deep cooperation between jurisdictions and authorities who defer to each other's regimes where they meet international standards and deliver similar outcomes."

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CCPs too important to carve up but need stronger EU protection

Continued from page 1

Under the proposals, a new supervisory mechanism will be established within the European Securities and Markets Authority (ESMA), which will be responsible for ensuring a more coherent and consistent supervision of CCPs based in the EU, as well more robust supervision of CCPs in non-EU countries, or ‘third countries’.

Non-EU CCPs are the real targets of these proposals, with the introduction of a new two-tier system designed to apply stricter requirements to systemically important—or so-called second-tier—CCPs.

These requirements include compliance with the necessary prudential requirements for EU CCPs while taking into account third-country rules, as well as confirmation from EU central banks that the CCP complies with any additional requirements they set forward, such as collateral management, asset segregation and liquidity arrangements.

ESMA also envisages second-tier CCPs agreeing to provide ESMA with all relevant information and to enable on-site inspections, as well as the necessary safeguards confirming that these arrangements are valid in the third country.

In the event that a third-country CCP is deemed to be of “such systemic importance that the requirements are deemed insufficient to mitigate the potential risks”, the European Commission would have the power to say that the CCP can only provide services in the union if it establishes itself in the EU. Non-systemically important CCPs will continue to be able to operate under the existing European Market Infrastructure Regulation (EMIR) equivalence framework.

Speaking at the the Global Financial Markets Association in Frankfurt, ECB executive board member Cœuré argued that many central banks rely on increasingly cleared trades such as repos to make monetary policy decisions.

“Any closure of certain repo market segments due to a CCP failure would therefore inevitably limit our ability to align money market conditions with our monetary policy intentions,” Cœuré said.

But he said that central banks are generally happy with existing rules to monitor and address potential risks stemming from central clearing. “More fundamentally, of course, the UK’s decision to leave the EU is prompting a significant re-think of the European approach to the supervision of systemically important global CCPs,” Cœuré conceded.

“What concerns us today in the context of Brexit is that the current EU regime regarding third-country CCPs was never designed to cope with major systemic CCPs operating from outside the EU. Indeed, this regime relies to a large extent on local supervision, and provides EU authorities with very limited tools for obtaining information and taking action in the event of a crisis.”

“In this regard, we think the recent European Commission proposals to amend EMIR are a step in the right direction. If adopted, they would provide the supervisors and the relevant central banks of issue with the guarantees they need in order to monitor and address risks to the EU’s financial system.”

Inside Securities Lending Times

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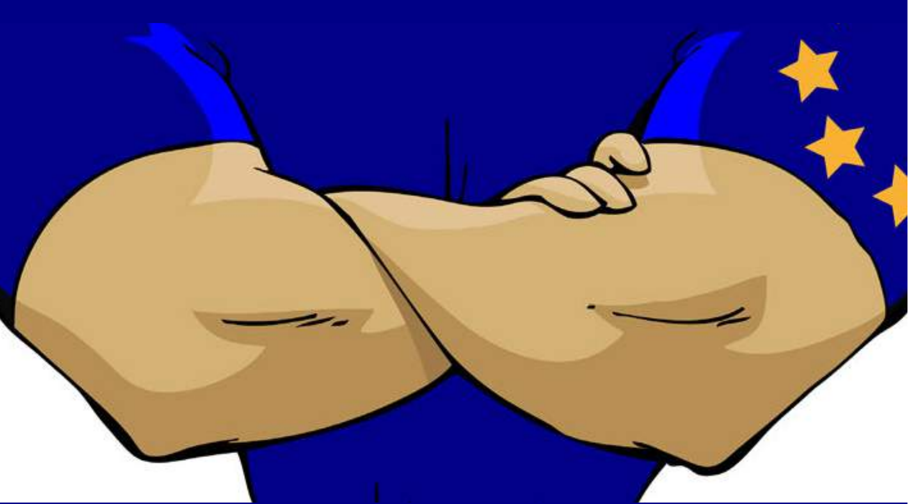

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Former ITG securities lending trader banned for ADR misuse

The US Securities and Exchange Commission (SEC) has banned a former ITG securities lending senior trader from the market for improper handling of American depositary receipts (ADRs).

Former managing director and head of operations at broker-dealer ITG, Anthony Portelli, has agreed to settle the charges and pay a $100,000 penalty.

He also is prohibited from acting in a supervisory capacity for at least 18 months, according to the SEC.

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Pirum Systems and wematch.securitiesfinancing announce collaboration

London | Reporter: Mark Dugdale

Pirum Systems and wematch.securitiesfinancing have launched a collaboration focusing on securities finance trading and post-trade.

Former BNP Paribas executive David Raccat launched the global multi-product and multi-asset-class, web-based securities financing dealing platform earlier this year.

The agreement with Pirum, a specialist in providing real-time straight-through processing services to the securities finance industry, promises to allow mutual clients to execute trades on wematch.securitiesfinancing and manage their post-trade on Pirum, which also boasts downstream connectivity to infrastructure providers such as triparty agents and central counterparties.

Pirum will also enable wematch.securitiesfinancing clients to comply with transaction reporting obligations via Pirum's existing partnership with IHS Markit.

Ben Challice, COO at Pirum, said "The collaboration with wematch.securitiesfinancing is a natural extension for our automated connectivity hub. Their platform is first class and the technology sup-porting it is very impressive. We look forward to allowing mutual clients seamless integration and helping clients automate a new route to market."

David Raccat, founder and CEO at wematch.securitiesfinancing, said: "The collaboration with Pirum is a key milestone in our permanent objective to offer a seamless and efficient solution to our clients. Pirum is a reference for post-trade services and we are convinced this joint service offering will bring a lot of value on the integration chain."

Portelli supervised ITG's securities lending operations and was responsible for the firm's compliance with pre-release agreements for ADRs.

Under Portelli's watch, personnel on ITG's securities lending desk failed to take reasonable steps to determine whether the proper amounts of foreign shares were owned and held by ITG's customers, according to the SEC.

This failure opened up the possibility that the ADRs could be used improperly for short selling or dividend arbitrage.

Before obtaining a pre-released ADR to lend to a customer, broker-dealers such as ITG must own, or determine that a customer owns, the number of foreign shares that corresponds to the number of shares the ADR represents.

The charges against Portelli follow ITG's settlement in January when the broker-dealer agreed to pay more than $24.4 million over allegations of securities lending violations relating to the facilitation of naked short selling.

Sanjay Wadhwa, senior associate director of the SEC's New York regional office and supervisor of the ongoing case against ITG, said: "Supervisors at broker-dealers have a responsibility to act reasonably to prevent and detect violations of the securities laws."

"Portelli routinely signed off on transactions involving ADRs that were not backed by actual shares and should never have been issued."

Portelli agreed to the settlement without admitting or denying that under Section 15(b)(6) of the Securities Exchange Act of 1934, he failed reasonably to supervise members of ITG's securities lending desk with a view to preventing violations of Section 17(a)(3) of the Securities Act of 1933.

ITG declined to comment on the case.

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US Treasury takes aim at post-crisis regulation in Trump-ordered review

The US Treasury has called on regulators to rationalise and improve the risk-based capital regime for the securities lending and derivatives exposures of US banks, in response to President Donald Trump's executive order demanding their regulatory burden be eased.

In the first of a series of reports to be issued on its work to address "redundancy, fragmentation, and inefficiency", the Treasury outlined on 12 June "changes that can be immediately undertaken to provide much-needed relief".

Trump ordered a review of post-financial crisis regulation earlier this year, with a view to rolling back rules that have adversely affected profitability.

This is the first of four reports expected in the coming months. One legal expert said: "These reports are expected to have a massive impact on US deregulation going forward. We wouldn't have thought some of this was possible."

The appropriateness of the existing methodologies and calibrations around the single-counterparty credit limit (SCCL), which comes under the umbrella of the Basel III framework, were called into question in the first report as they do not account for business activities such as securities lending.

The Treasury said regulators should work to "reduce redundant calculation approaches and improving risk sensitivity" in the measurement of securities financing activities, which would would be disproportionately penalised under the current rules. It was also recommended that the SCCL should only apply to banks that are subject to the revised threshold for the application of the enhanced prudential standards.

The long list of proposed amendments to post-financial crisis banking regulation also included a recommendation to considerably narrow the scope of application of the liquidity coverage ratio (LCR) to include only internationally active banks.

The Treasury suggested that the degree of conservatism in the cash flow calculations methodologies and other aspects of the LCR process should be adjusted to include a greater reliance on a banking organisation's historical experience. In order to further boost market liquidity, the Treasury suggested delaying the domestic implementation of the net stable funding ratio (NSFR) and the fundamental review of the trading book rules until they can be appropriately calibrated and assessed.

"Both of these standards represent additional regulatory burden and would introduce potentially unnecessary capital and liquidity requirements on top of existing capital and liquidity requirements."

The use of a stricter definition of high-quality liquid assets to bring it in line with the LCR was also recommended.

The Volcker Rule, which is already under serious threat of being scrapped from potential Dodd-Frank replacement the Financial CHOICE Act, "requires substantial amendment", according to the Treasury.

"Its implementation has hindered market-making functions necessary to ensure a healthy level of market liquidity. Combined with high liquid asset buffers, and limited time to restore buffers during periods of stress, the Volcker Rule could result in pro-cyclical behaviour and reinforce market volatility during periods of stress," the treasury added.

The Treasury and the White House will now begin working with Congress and industry stakeholders to implement the recommendations advocated in the report.

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Howard/Miller adjusts lending programme

London | Reporter: Drew Nicol

US investment manager Howard/Miller Investments has revised its investment policy for its high income equity fund to exempt its securities lending activities from its leverage limits to allow for a more flexible policy.

The firm, which manages $6.6 billion in assets, explained in a note to investors that securities lending and other financing activity, such as repo and swaps, currently fall under the 'effective' portion of the fund's leverage strategy, as they have "have similar effects as leverage".

There is currently a 20 percent leverage limit on assets within the fund, but Howard/Miller has decided to exempt securities lending from this, to allow the fund "to deploy a more flexible securities lending policy", according to a spokesperson.

"A securities lending programme, in our view, should benefit the fund and its shareholders by generating additional income."

The calculation of the 20 percent leverage limit on assets will no longer apply to securities lending transactions as of 15 August.

Miller/Howard focuses on income-producing equities, with an emphasis on high-quality stocks with high yield and strong dividend growth.

NSFR makes EU repo less attractive

The International Capital Market Association (ICMA) has warned that the mandatory buy-in regime of the European Central Securities Depositories Regulation (CSDR) will be a significant deterrent to lenders of corporate bonds in the repo space.

In its latest study on the health of European corporate bond repo and securities lending market, the association reiterated its concerns that crippling regulation was the biggest risk to future of the EU repo market.

"[CSDR] will have a material impact on overall supply, particularly with respect to lower credit or less liquid corporate bonds," explained ICMA in its report.

Along with CSDR, ICMA highlighted that the net stable funding ratio, which was introduced as part of a bundle of new requirements for banks under the Basel III framework, will also increase trading costs and limit the capacity of banks to fulfil the critical role of repo market intermediation.

According to ICMA, there is scope for creating efficiencies through automating many of the highly manual and labour-intensive processes of the market.

"However, automating the credit repo market is not straightforward, given the intricacies and nuances of the market, with the market becoming even more complex and fragmented with every new layer of regulation."

ICMA first raised its concerns regarding the negative affect incoming regulation was having on the repo market in its quarterly market reviews, where it highlighted to huge strains that were placed on the market at year-end 2016, and reoccur at every quarter end.

Beyond regulatory concerns, ICMA said that, for the most part, supply into the European credit repo market is relatively good,

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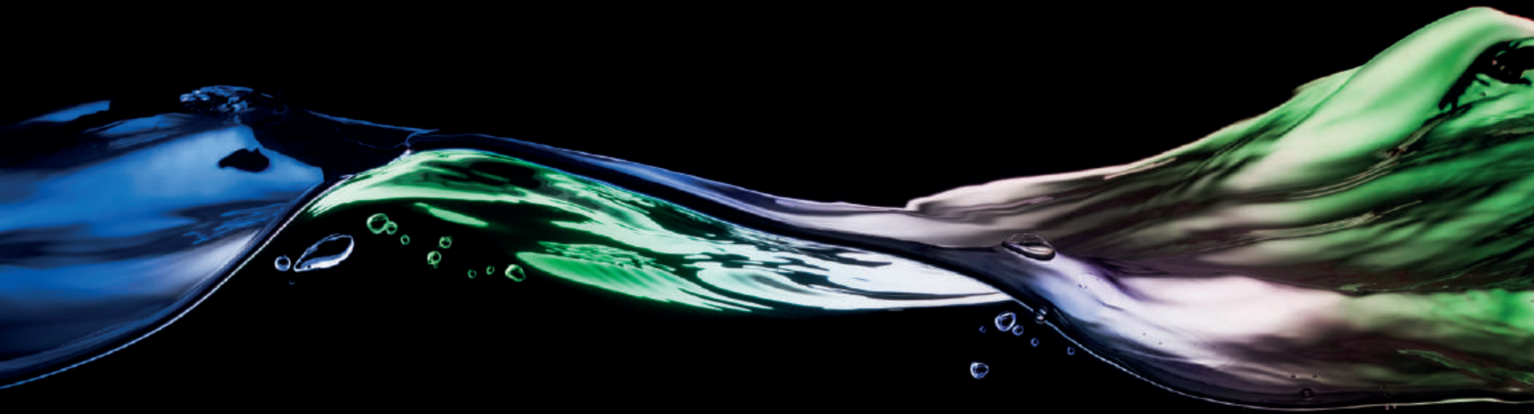

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Clearstream's GSF volume dips as ETF demand booms

Luxembourg | Reporter: Drew Nicol

Clearstream saw its global securities financing (GSF) volume fall 14 percent in May, at the same time as demand for its custody services for exchange-traded funds (ETFs) skyrocketed.

GSF volume dropped to €451.5 billion last month, down from €522.8 billion during the same period last year.

Year-to-date average GSF was also down 10 percent from €528.7 billion in 2016 to €474.1 billion.

Clearstream saw a 25-percent increase in its custody business for ETFs over the last 12 months, with ETF assets under custody passing the €300 billion mark for the first time in May.

According to Clearstream, this increase is partly down to the emergence of products such as its Vestima cross-border fund processing platform, designed to simplify cross-border ETF transactions while improving liquidity and reducing costs.

ETFs were added to the Vestima fund platform in 2014.

Philippe Seyll, who is co-CEO of Clearstream Banking, commented: "Our system takes care of the complexity. It is low on cost and it is automated. This means that a French investor can buy into a German-listed ETF and sell it on the UK stock exchange seamlessly."

Clearstream's total assets under custody for May saw a 3 percent increase to €13.46 trillion compared to the same month last year, when assets under custody reached €13.04 trillion.

The investment funds services business saw an almost 50 percent increase in the number of transactions, and a 19 percent increase in the value of securities deposits.

Transactions increased from 1.4 million in May 2016 to two million in May 2017, with securities deposits increasing from €1.84 trillion to €2.2 trillion.

In its international central securities depository (ICSD) business, Clearstream saw a 37 percent in-crease in the number of transactions, from 2.9 million in May last year to four million this year.

Securities deposits dipped by 2 percent, falling from €6.81 trillion to €6.7 trillion.

Similarly, in the CSD business, transactions jumped from 6.2 million to 8.3 million, marking a 35 percent increase. This did not translate to securities deposits figures, however, which saw a 4 percent increase from €4.39 trillion in May 2016 to €4.56 trillion in May 2017.

particularly with respect to investment grade corporates. And while repo rates for specials, particularly in the high yield space, can be expensive and volatile, there is usually still availability.

However, the changing nature of the underlying market, with a trend toward smaller trade sizes and more rapid turnover of dealer positions, which is making sourcing supply more difficult. While there may be plenty of bonds in the lending programmes, there is little or no economic incentive to lend small sizes for very short-periods.

The study was a joint initiative between the ICMA European Repo and Collateral Committee and the ICMA Secondary Market Practices Committee.

Broadridge takes on SFTR reporting

Broadridge is addressing trade reporting requirements set to come in with the Securities Financing Transactions Regulation (SFTR), launching a new solution spanning the entire reporting lifecycle.

Under the European Securities and Markets Authority's SFTR, any EU counterparts engaging in securities finance transactions will be required to report trade data to a registered data repository.

The Broadridge solution will provide system-level data from its securities finance and collateral management solution, as well as generating unique trade identifiers, providing a matching service, and reporting directly to the trade repositories.

It is also available as a modular solution that can be combined with other third-party reporting platforms.

SFTR is expected to come into force at the end of 2017, and will be phased in over a nine-month period, coinciding with the second Markets in Financial Instruments Directive

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(MiFID II), which is coming into effect in January 2018.

Tom Carey, Broadridge's president of global technology and operations internationally, said: "The SFTR rules present a major challenge for all market participants due to their complex nature, dual-sided reporting and proximity to MiFID-II compliance deadlines."

He added: "Broadridge's in-depth expertise in both securities finance and trade reporting regimes, combined with this new solution, will enable clients to adapt to SFTR smoothly while minimising operational disruption and reducing the resource impact of complying with multiple concurrent reporting mandates."

Clearstream and ColleX collaborate

Central securities depository Clearstream and collateral exchange ColleX are teaming up to improve buy-side access to triparty collateral management.

Collex aims to leverage the Clearstream Repurchase Conditions (CRC), which sets out triparty provisions and collateral acceptability in one single legal document.

The CRC offers instant access to the a large counterparty pool, with more than 70 participants signed up, ranging from traditional dealer counterparts, to insurers and corporate treasurers looking for secured funding. ColleX in turn provides a centralised liquidity hub for collateral lending and repo transactions.

The collaboration will connect the two trading venues, for improved price discovery through the CRC legal document and triparty platform. CRC clients can then actively trade with each other directly with simple settlement connectivity.

Glen Stone, head of ColleX, said: "By coupling Clearstream's capability to manage the operational lifecycle of triparty repo transactions with the ColleX trading technology, ColleX is offering price discovery and best execution to further streamline and simplify a historically fragmented market which can be difficult to access."

Marcel Naas, head of global funding and financing at Deutsche Börse Group, added: "Our partnership with collateral exchange platform ColleX speaks to our commitment to further increase collateral efficiency by entering into successful collaborations."

"Providing our buy-side clients with a simplified access to triparty collateral management, creating a single collateral pool and exploring re-use and netting opportunities, are among the objectives of our new global funding and financing product offering."

Dealerweb claims significant share of US repo market

The Dealerweb marketplace now captures 18 percent of US repo activity in inter-dealer trading, Tradeweb Markets said on the anniversary of its launch.

Average daily trading volume of repo on Dealerweb has more than doubled to $177 billion, with more than $95 billion traded electronically.

More than $3.8 trillion in US repo was executed on Dealerweb in May of 2017, with over $2.1 trillion traded on the electronic platform.

Dealerweb is owned by Tradeweb Markets, a global provider of fixed income, derivatives and exchange-traded funds marketplaces. The Dealerweb US repo platform offers independent, electronic execution, as well as traditional voice-brokerage.

According to Tradeweb, clients benefit from reduced costs and access to both platforms, gaining operational efficiency and low-latency execution when trading electronically, while maintaining their ability to leverage relationships through Dealerweb brokers.

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Embracing the unknown

SFTR dominated ISLA's 26th Annual Securities Finance and Collateral Management Conference, but there was also room for MiFID II, Brexit, equities as collateral and more. Drew Nicol was there to report on the highlights

As representatives from the global securities lending industry gathered in Berlin for ISLA's 26th Annual Securities Finance and Collateral Management Conference, many of this year's hot topics came with more questions than answers.

The practical implications of the fast approaching deadline for the second Markets in Financial Instruments Directive (MiFID II), along with the final form and timeline of the Securities Financing Transactions Regulation (SFTR), and several other market disruptions were dissected by panellists and speakers.

I don't predict a riot

For the securities lending industry, market disruption comes in several guises. Emerging technology, such as blockchain and peer-to-peer (P2P) platforms that allow for direct lending, are chief among these as both allow end users to bypass the traditional transaction chain.

The rise of P2P lending was described by panellists as a two-headed beast. From the point of view of banks, P2P lending in the repo space provides welcome relief from what are otherwise financing services that put great pressure on the balance sheet. For securities lending, however, the disintermediation that direct lending would allow represents potential lost revenue for those that position themselves in the middle of the trade.

However, in both cases, the resources required for beneficial owners to lend directly and remain in compliance with their own risk management rules and the various regulatory requirements means that only a small subset of the largest lenders will be able to engage in this new trading avenue.

Regarding the application of blockchain and distributed ledger technology more generally, much lip service was paid to the potential disruption that such a technology could cause to traditional lending models. But the conference hall seemed united in its belief that it was simply too early to say how it could affect the market in practice.

Brexit, Brexit everywhere but not a fact to think

After technological disruption, the next most discussed hurdle on the horizon was Brexit, which featured to different degrees in most panels throughout the three days.

Last year's ISLA conference concluded on the day the people of the UK went to the polls for the Brexit referendum, meaning that last week's gathering was held just shy of 12 months after the the leave result was set. Despite this, there were precious few facts to discuss in terms of how Brexit might affect market participants—in London or elsewhere—during last week's sessions.

A poll of audience members asked whether Brexit would affect their business and the overwhelming response was that it was too soon to say. Conference co-chair John Arnesen predicted that Brexit will end up being a central topic of next year's conference, when there will hopefully be some actual details of what a post-Brexit world will look like.

In one such discussion, a panellist representing a European bank was unphased by Brexit and mused that the only issue was where to move his UK sales team to in the EU. A US-based pension fund panellist described Brexit as merely "a distraction"—those hailing from the UK disagreed.

Caution: Reporting ahead

The draft regulatory technical standards (RTS) of SFTR were released in March, meaning that by the time market participants met in Berlin, they had had enough time to digest the implications of what will most likely be the final form of the reporting requirements.

The three-month review window for the draft RTS is meant to close at the end of the month, but the industry was warned that the European Commission is likely to miss this deadline. A speaker close to the process predicted that the remaining timeline for implementation will likely be delayed by six months, which may come as a relief to the small section of the audience that admitted to not having started work on compliance with the new rules yet.

Discussions around the challenges posed by MiFID II were much more straightforward. The directive comes into force on 3 January 2018 and the industry appeared to be well underway with preparations to meet this deadline. The persistent work of ISLA was highlighted repeatedly as being central to successfully guiding the industry to this stage.

During discussions on the burdens of more reporting requirements and emerging sources of market disruption, a common theme emerged—that it will be smallest market participants that will be hit the hardest.

SFTR's reporting rules put the onus for compliance on the beneficial owner, not the agent lender. For smaller pension funds and family offices, this may prove too onerous to justify the potential incremental revenue of lending out securities. For the rest of the market, this a problem because those smaller lenders bring a disproportionate amount of the hard-to-source specials that often dominate revenue streams.

At the same time, for UK lenders, the loss of passporting that a hard Brexit may bring will cripple those without the ability to shift lending activities to offices in the eurozone.

All aboard the T2S express

Audience members were updated on the progress of the Target2-Securities (T2S) platform, which is on track to achieve 95 percent compliance with EU post-trade harmonisation standards by the final September deadline.

The T2S project is currently in its final phase of bringing financial markets online. Volumes on the platform had risen significantly as previous waves brought in larger EU markets. The fourth wave saw the German market go live, which contributed significantly to overall volumes on the platform.

The last phase will see central securities depositories (CSDs) in Estonia, Latvia and Lithuania brought onto the platform by the final 18 September deadline, bringing the overall project to nearly full compliance.

The seventh Harmonisation Progress Report, which was published in January, first highlighted that full compliance of T2S markets would not be reached by the fifth wave deadline.

It also noted that a further 2 percent faced obstacles that may stop full compliance being reached, but this demographic now appears to be on track.

The report stated that 70 percent of T2S markets were fully compliant in January, with a further 23 percent categorised as facing no further obstacles to full compliance.

Euroclear Finland will be the missing piece of the puzzle in September following an announcement in January that it had postponed its Infinity Release 2, which would have prepared it for access to T2S. It's currently unclear how long after September Euroclear Finland will go live.

The EU-centric agenda did allow some time for delegates to glance over the pond at a time when the US market could be on the cusp of a seismic shake up of financial market regulation. Relating directly to the stock loan market was the continued whispers of reform to SEC Rule 15c3-3 to allow equities to be used as collateral.

Negotiations for reform have already seen lengthy discussions between industry stakeholders and regulators, but there was some hope voiced that the end is now in sight, one way or the other.

Experts at BNY Mellon recently wrote of the excitement among collateral providers in the US, "because, on the surface, the rule change potentially reduces their financing costs, as they're naturally long in equities".

"Given that most equity collateral-driven businesses are based outside the US, with the highest concentrations being in Europe, Asia Pacific and Canada, Rule 15c3-3 will likely result in a shift back towards the US."

A poll of the audience in Berlin showed that a significant share believe that such a shift could occur, although speakers cautioned against getting too excited.

It is understood that eligible collateral would be restricted to Russell 1000 and S&P 500 equities under the changes to Rule 15c3-3, which would limit their effect on trading around the world.

There was also a prediction that changes to Rule 15c3-3 would be counterproductive, putting a squeeze on cash in the US market, and scepticism as to whether they would displace business from markets such as the UK, where there are no restrictions on collateral type.

Attendees were also advised to keep a close eye on the filling of the remaining vacancies for the Federal Reserve board, including the replacement of Janet Yellen next year, which could remove the final obstacles keeping the Dodd-Frank Act from getting axed in its entirety.

Out with the old

A new voluntary code of conduct for the securities lending market, known as the UK Money Markets Code, was unveiled with the whole industry encouraged to incorporate its standards into their day-to-day activities.

Industry representatives, including ISLA, drafted the code in partnership with the Bank of England (BoE) to replace the previous guidance, which has been judged to be outdated.

The new code aims to rebuild trust and confidence after the 2008 financial crisis.

Although the code was official released prior to the conference, nearly half of those in attendance were unaware of its publication when polled during the session. Those directly involved in the drafting of the securities lending portion were hopeful that the dedicated session will boost its profile and help make its standards common practice in the near future. **SLT**

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SLT on SFTR

IHS Markit, EquiLend, FIS, Pirum Systems, ISLA and legal expert Michael Huertas of Baker McKenzie recently took to Twitter to demystify SFTR

Securities Lending Times @SLTimes_
How much has EMIR implementation knowledge helped with SFTR?

Pirum Systems Ltd @PirumSystems
EMIR preceding SFTR has been hugely beneficial. The industry learnt a number of lessons from what went wrong. 1: Rushed implementation before the reporting deadline, 2: Lack of agreed industry protocols (UTIs as an example), which underpin the reporting requirements, 3: Very low pairing and matching rates

Trax @TraxMarkets
Lessons can be certainly learned from EMIR—most firms are working toward the November 2017 revised standard update

Drew Nicol @SLT_Drew
Are they likely to make the new deadline?

MHuertas @EurozoneHub
I'd imagine that as we get closer, ESMA may need to up its stakeholder outreach. EU political appetite to extend deadlines is low

Pirum Systems Ltd @PirumSystems
Learning from EMIR, it's not just the firm's experience but ESMA's too. The regulator has been more transparent, more communicative. From what @PirumSystems can see ESMA realises it made mistakes too and has tried to rectify that in SFTR

EquiLend @Equilend
EMIR experience has highlighted the importance of rigorous matching via a UTI to avoid breaks

MHuertas @EurozoneHub
I think that's right. There are a lot of transferable lessons between EMIR and SFTR for the market and the regulators have copied the approach

Markit @Markit
The low matching rates for EMIR have prompted us to provide a solution that will pre-match trades prior to trade repository submission. This will minimise workflows and create a more efficient process

Trax @TraxMarkets
Once the EMIR revised standards are implemented, internal teams can apply knowledge from EMIR to SFTR

Trax @TraxMarkets
EMIR can help firms apply knowledge of collateral, valuations and cp static data to SFTR

EquiLend @Equilend
The experience with EMIR has brought greater awareness of the onboarding process. The preferred solution is to have the UTI generated at point of trade

ISLA @ISLA
Firms with experience of MiFID will be able to leverage that knowledge

Marianne Brown @MarianneB_FIS
EMIR reporting has had serious challenges—much can be learnt so issues such as UTI matching will not be repeated

Securities Lending Times @SLTimes_
Are SFTR workstreams tying into MiFID II/MiFIR? If not, should they?

EquiLend @Equilend
SFTR is unfortunately competing for resources with MiFIDII/MiFIR

Drew Nicol @SLT_Drew
Is SFTR at risk of going to the back of the queue (compared to other regulations) as we are yet to see a firm implementation date?

Pirum Systems Ltd @PirumSystems
Yes and no. MiFID reaches further than SFTR reporting is just one of them. Reporting for SFTR is more complex and it makes sense to digest both requirements in tandem to see where is there overlap

IHS Markit @Markit
Each regulation has separate work streams, but some SFTs will have to be reported under MiFID II, which our solution will handle

EquiLend @Equilend
SFTR is more focused than MiFID/MiFIR on matching and links—closer to EMIR

Trax @TraxMarkets
Reporting firms should leverage reference data from MiFIDII for SFTR reporting

Pirum Systems Ltd @PirumSystems
MiFID obligations still consume a lot of resource. There's more focus versus SFTR right now. SFTR demands attention though

EquiLend @Equilend
More from a personnel (centralised regulatory group) standpoint than specifically the content

Marianne Brown @MarianneB_FIS
Yes, there is sufficient overlap to make developing solutions in tandem the right option

Pirum Systems Ltd @PirumSystems
There are securities finance exemptions under MiFID. These trades are reportable under SFTR so a holistic viewpoint is essential. @PirumSystems customers looking at MiFID can leverage understanding of where various data points are held for SFTR

Securities Lending Times @SLTimes_
What are the biggest worries with SFTR reporting?

Pirum Systems Ltd @PirumSystems
Our view would be: Obtaining and capturing all the necessary data points circa 140 field potential for SFTR

- Principal level reporting and issues that ALD poses
- Reporting matched data with paired UTIs
- Amending existing booking practices
- The longer term potential for fines
- Being ready on time

EquiLend @Equilend
- SFTR concerns we are hearing include: In an effort to make the business more transparent with SFTR, will the process become more cumbersome?
- Can firms be compliant by go-live date or will MiFID/MiFIR be too distracting?
- Concerns around UTI generation, data enrichment, data privacy/protection
- Are participants prepared for a transformational change in process?

ISLA @ISLA
The market has to assess the impact how out-of-scope lenders will provide data for in-scope borrowers

MHuertas @EurozoneHub
The SFTR disclosure points are one thing, open to thoughts, but SFTR awareness, ie, what applies where is perhaps behind EMIR

Trax @TraxMarkets
Data and UTI generation are also key pain points in complying with SFTR

Marianne Brown @MarianneB_FIS
The data & timing requirements are complex, but not difficult. We are constructing a universal STP solution which will cope with all scenarios as reporting requirements go global

Drew Nicol @SLT_Drew
Pain point because they are new to SFTs or because of IT lift of implementing?

Trax @TraxMarkets
Readiness. With the EMIR revised standards in November 2017 and the implementation of MiFID II in Janunary 2018, SFTR is creeping up quietly

Securities Lending Times @SLTimes_
Are firms approaching SFT types differently in SFTR compliance?

Pirum Systems Ltd @PirumSystems
Simple answer is no—the Pirum/IHS Markit solution covers all SFTs so firms know they will have a one stop solution and not have to worry.

We understand that different SFT types are handled by different areas, and often different systems, though.Generally, firms are tackling SFTR from a legal entity perspective if they trade a number of asset types. These are not being siloed

EquiLend @Equilend
Each individual product line has a different approach due to complexities/sensitivities. Each product line is looking for a different solution from vendors

IHS Markit @Markit
All trade types will be handled by our SFTR solution, but we have seen little appetite to split compliance by different trades

Trax @TraxMarkets
We've seen firms look for solutions based around specific asset classes, particularly to gather transactional and UTI data

Marianne Brown @MarianneB_FIS
SFTR requires reporting of your trade & collateral positions to a defined schedule. Producing all the data at the point of trade entry as with @fisglobal solution ensure every item of trade data is captured rather than managed through one or more third party providers #SLTonSFTR

Shorts net unlikely payday from Whole Food deal

The fallout from the Whole Foods/Amazon takeover has compensated for any immediate pain felt by short sellers. IHS Markit analyst Simon Colvin reports

Over the past few years, Whole Foods has been a prime target for short sellers. With 16 June's announcement that the company will be taken over by Amazon, observers anticipated an unmitigated disaster for short sellers. Although the deal inflicted a paper loss of $180 million for short sellers, its impact on a traditionally shorted section of the market more than offset the immediate losses. In fact the short profit and loss for North American food and staples—based on the short positions of night of 15 June—generated a $100 million profit at 16 June's close.

This offset was driven by the rout experienced in the wider North American food and staples sector as the market digested the disruptive potential of the sector's new well-capitalised interloper. In fact, these losses largely represented more than 4 percent of the sector's entire market cap, which indicates more turbulent times for the sector.

Warehouse retailer Costco was the chief source of solace for short sellers on 16 June, returning more than $68 million as its shares fell by more than 7 percent. With only 1.2 percent of shares outstanding on loan, Costco was not a high conviction short target, yet its large size and the sharp fall in its share price, made sure that the company offset about half of the pain felt by short sellers from the Whole Foods deal.

	Ticker	June 16th Share Performance	June 16th Short P&L (USD M)	Pc Shares on Loan (June 15th)
Costco Wholesale Corp	COST	-7%	68.5	1.2
Cvs Health Corp	CVS	-4%	57.1	1.8
Loblaw Companies Ltd	L	-4%	43.8	5.3
Wal-Mart Stores Inc	WMT	-5%	35.8	0.3
Kroger Co	KR	-9%	26.3	1.1
United Natural Foods Inc	UNFI	-11%	23.3	10.1
Smart & Final Stores Inc	SFS	-19%	12.7	7.6
Sprouts Farmers Market Inc	SFM	-6%	10.8	5.1
Walgreens Boots Alliance Inc	WBA	-5%	6.1	0.1
Caseys General Stores Inc	CASY	-1%	3.8	12.0
Pricesmart Inc	PSMT	-4%	3.8	3.7
Sysco Corp	SYY	-2%	2.4	0.4
Supervalu Inc	SVU	-14%	2.1	1.3
Empire Company Ltd	EMP.A	-4%	2.0	1.4
Metro Inc	MRU	-3%	1.2	0.5
Us Foods Holding Corp	USFD	-3%	1.1	0.5
North West Company Inc	NWC	-3%	1.1	3.1
George Weston Ltd	WN	-1%	0.8	0.5
Spartannash Co	SPTN	-6%	0.8	1.2
Weis Markets Inc	WMK	-5%	0.7	1.1
Chefs' Warehouse Inc	CHEF	-2%	0.6	6.7
Natural Grocers By Vitamin Cottag	NGVC	-3%	0.4	7.7
Andersons Inc	ANDE	-3%	0.4	1.1
Ingles Markets Inc	IMKTA	-3%	0.2	1.1
Jean Coutu Group Pjc Inc	PJC.A	0%	0.2	4.3
Ifresh Inc	IFMK	-19%	0.1	0.1
Liquor Stores Na Ltd	LIQ	-1%	0.0	0.9
Metro Inc	MTRAF	-2%	0.0	0.0
Village Super Market Inc	VLGEA	0%	0.0	3.2
Centric Health Corp	CHH	1%	0.0	0.0
Performance Food Group Co	PFGC	1%	-0.1	0.4
Rite Aid Corp	RAD	2%	-0.8	1.4
Alimentation Couche Tard Inc	ATD.B	1%	-2.8	1.3
Whole Foods Market Inc	WFM	29%	-186.2	5.6
Sector Average (Sum for P&L)	**amzn**	-3%	116.3	2.7

Short sellers were much better positioned to profit from the 18 percent share price decline of fellow warehouse store operator Smart & Final. They had positions worth 7.6 percent of the company's outstanding shares. Smart & Final's shorts only netted $12 million on the day, however, due to the firm's relatively small size.

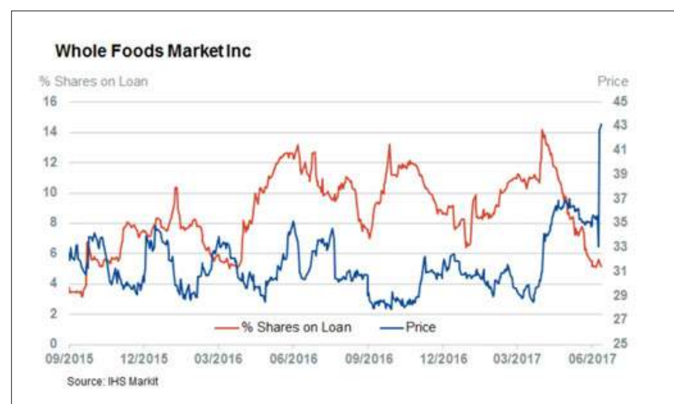
Whole Foods competitor United Natural Foods was the most profitable on the list of high conviction short plays. The company has more than 10 percent of its shares out on loan, netting bearish investors $23 million from the retreat in its share price.

Interestingly, convenience store operator Casey's General Stores, which is the most shorted North American grocer, saw its shares trade relatively flat on 16 June. This could be due to the fact that the market feels the convenience sector is relatively immune to online competition, or that its disappointing earnings have fairly valued the firm.

Could have been much worse for shorts

Short sellers may have Jana Partners to thank for their bumper payday. The activist investor firm started to agitate for Whole Foods to take a strategic initiative when it went public with a position in the grocer back in April. Short sellers have taken the threat of this change seriously, and they halved their positions in the ensuing weeks.

The 6 percent of Whole Foods shares that were out on loan on the morning of 16 June represent the lowest demand in more than 12 months. Short sellers would have faced $200 million of additional losses had they kept their positions at the same levels when Jana Partners first agitated for change. **SLT**



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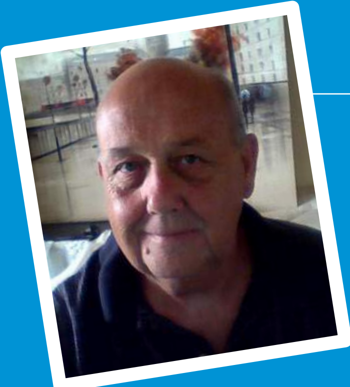

Seconds with JJ Jones

JJ Jones is ideally suited to a client relationship role working closely with trading desks eager to develop business relationships with existing and new clients

What's your background?

Following my departure from Bear Stearns, I set up my own consulting business, JCJ Consulting Services. I am director and owner of this independent financial services product development company, offering consulting, detailed specification and client onboarding, primarily for securities borrowing and lending, repo and prime services firms. These have included Absa Capital/Barclays Capital, Ceres Securities, Deutsche Bank Asset Management (Zurich) Kellner Di Leo, State Street Trust and Banking, and Wedbush Securities (New York).

What was your last position in the industry and what did you enjoy most about it?

Prior to setting up JCJ Consulting Services, I worked as a managing director in securities lending/equity finance at Bear Stearns International. I was head of trading for the securities lending/equity finance desk, managing a team of 11 (eight London, three Tokyo) covering all aspects of international securities lending. This included yield enhancement trading, short sale coverage, contracts for difference (CFDs) and collateral trading.

In addition, I successfully ran a 'matched book' business from box and street positions to the broker-dealer and hedge fund community. I was also equity finance product leader for the European prime broker development team, successfully encouraging existing hedge funds to transact their international securities borrowing and lending business at Bear Stearns and also attracting new start-ups on a regular basis. This diversification gave me the enjoyable task of developing a truly global desk.

I established a team of traders and support staff that were highly regarded in the securities lending industry, many of whom are now still employed in senior roles. I foster a belief that mutual respect between management and staff is of the utmost importance. It encourages ideas and product development, which I see as the most enjoyable part of management. The fact that staff still say how much they enjoyed working under my management means so much to me.

What about some of your other previous roles?

I was headhunted by the executive committee of Prudential Securities with the specific task of developing its exposure to the UK securities and financial markets. The major changes affecting the financial services industry, as a result of deregulation, presented the opportunity to an entrepreneurial enterprise to benefit from my considerable skills in developing a highly profitable and well-respected stock exchange intermediate lender. I progressed to become sales trading/marketing director of the newly established securities lending company and managed a team of 30 staff.

At Akroyd & Smithers, I managed a team of eight during the introduction of traded options to the London Stock Exchange. I was instrumental in introducing securities borrowing to the desk in order to settle exercised deliverable positions.

What area are you looking to get back into?

I am primarily looking for a marketing role across Europe and Asia, preferably as an employee but would consider contracts through my consulting company. I would be ideally suited to a client relationship role working closely with trading desks eager to develop business relationships with existing and new clients. The old saying that it's not the business you do with a client that is most important, it is the business you could be doing. I am happy to be based on or off-site and would prefer a reduced working week (say three days), both of which would be a cost saving for the hiring company.

What do you feel you could bring to a future role?

I have a proven track record with securities lending/financing-related products across multiple markets and currencies. In addition, my extensive contact list may offer improved liquidity and clients for all international markets. I believe I have the ability to enhance client relationships through constant dialog, ensuring current business issues are successfully managed and potential business leads are followed up.

What do you feel the industry needs most?

To return to the days of securities lending and repo being a relationship and forward-thinking business. Today there is too much emphasis on regulation, compliance and automation that has stifled the talents of many good traders. I am not saying that the market should be unregulated, but believe that discussions going forward should be with traders with market skills and knowledge that many negotiators don't have. There is either a niche for small companies that can offer entrepreneurial skills, or larger companies placing greater emphasis on product development, instead of burying their heads in the sand as they appear to be now.

What is the best way to contact you?

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Senior Business Manager

Alexander Ash

London

An investment bank is undertaking a major transformation programme within its DCM/ECM/advisory COO function and have a fantastic opportunity for a senior business manager/COO to manage both operational and transformation initiatives for the business.

Credit Risk Analyst

Bruin

London

A global investment management group is seeking an experienced credit risk analyst to join its London team. The successful candidate will report to the global head of counterparty credit risk and will be responsible for monitoring, analysing and reporting on the model's performance.

Liquidity Manager/Treasury Manager

Alexander Ash

London

The candidate will be responsible for further development and implementation of the liquidity management and funds transfer pricing framework in relation to the bank's portfolio of businesses

Liquidity manager

Alexander Ash

London

An investment bank with operations all over the globe is currently searching for a liquidity manager to join it on a contract basis in its offices in London.

Greg Korte joins Aon, Baker McKenzie hires Michael Huertas, and more

Greg Korte has joined insurance company Aon as a partner focusing on securities lending and trust/custody consulting.

Korte brings experience from his role as principal and head of North America trust/custody and securities lending consulting at Mercer. He also founded Korte & Associates Consulting.

He has 30 years of experience in the investments service industry, primarily helping institutional investors understand non-market risks, improve operational efficiency, and achieve effective cost and vendor management.

Prior to forming Korte Consulting, Korte was head of the North American custody and operations consulting practice at Russell Investments.

Michael Huertas has joined Baker McKenzie's banking and finance practice as counsel.

Huertas will be based in Frankfurt and report to Manuel Lorenz and Sandra Wittinghofer.

He moves from Allen & Overy's financial services and structured finance practice, which he joined in 2013.

The banking and finance practice focuses on helping clients navigate and realise the opportunities in the EU regulatory and supervisory framework.

Huertas specifically advises on the eurozone's banking union, the European Central Bank's (ECB's) monetary policy activity and the EU's capital markets union project. This includes the regulatory and supervisory work streams of the European supervisory authorities.

Huertas was seconded to the ECB from September 2014 to September 2015.

Martin Kaiser, partner and head of the Baker & McKenzie's banking and finance practice group in Frankfurt, said: "The reinforcement of our bank regulatory practice with the addition of Michael Huertas is an important step in Baker McKenzie's commitment to serving clients more efficiently on a broader basis in a fast-changing environment."

"Given recent political developments in the EU and deeper integration of the eurozone, Michael's regulatory and supervisory law focus is a timely addition to the team and will assist clients with dedicated insight for those already engaging with the eurozone authorities or looking to relocate to the eurozone."

Huertas added: "Baker McKenzie's dynamic plans coupled with an unrivalled global network and depth of presence in the eurozone provides an exciting environment and the right platform on which to better support banks and financial institutions, alternative investment funds, fintechs and non-financial corporates at this time of immense change in the EU-27."

"I very much look forward to helping clients respond to these challenges and adding my part in further developing the banking and finance practice at Baker McKenzie."

The appointment of Huertas in Frankfurt follows the recruitment of Filip Kurkowski, who joined Baker McKenzie as a partner in 2016. Kurkowski focuses on asset financing transactions and international property.

BNY Mellon has secured Peter Salvage for its the newly created role of global head of hedge fund services.

Salvage will lead and execute the long-term strategy to drive growth in BNY Mellon's hedge fund services business and work to further develop long-lasting partnerships for the bank in the alternative investment services industry.

He will report to Chandresh Iyer, CEO of BNY Mellon's global alternative investment services and structured products business.

Previously, Salvage served as managing director for SS&C and before that was Citi's Europe, the Middle East and Africa head of hedge fund services, as well as the founder of Citi's over-the-counter derivatives and bank loan services.

Prior to his financial services career, Salvage was a broadcast journalist based in Berlin covering wars in Bosnia, Sierra Leone and Iraq.

"Peter Salvage brings extensive experience in hedge fund middle and back office services, innovation and technology," said Iyer. **SLT**

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Published by Black Knight Media Ltd

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