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Issue 224 02 April 2019

On trend

HQLAx's Raoul Bhoedjang discusses technology trends and its blockchain partnership

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Level II SFTR legislation makes official law

Legislation covering the Securities Financing Transactions Regulation (SFTR) has entered the Official Journal of the EU, making it official law.

The journal is the official gazette of record for the EU. Only legal acts published in the journal are binding.

The seven delegated regulations and three implementing regulations comprising SFTR level II legislation were published in the journal on 22 March.

They include standards specifying the details of the application for registration as a trade repository; regulation on access to the data held in trade repositories; standards specifying the details of securities financing transactions (SFTs) to be reported to trade repositories; regulation on fees charged by European Securities and Markets Authority (ESMA) to trade repositories; standards on the collection, verification, aggregation, comparison and publication of data on SFTs by trade repositories; standards on the details of the application for registration and extension of registration as a trade repository; and standards on access to details of SFTs held in trade repositories.

Seb Malik, head of financial law at Market FinReg, commented: "The long-awaited package of SFTR legislation finally entered the Official Journal [22 March] meaning it is official law."

"It will achieve legal force in 20 days meaning that we now have 12 April 2020 as a firm start for the first SFTR transaction reports."

"While it may feel like the end of a voyage, in fact, this is the beginning. SFTR is the most complicated reporting regime to hit the industry. [Market FinReg], in conjunction with Regis-TR, are training industry participants to be ready and are offering training in London and Europe to ensure the industry is ready by next April."

According to the International Securities Lending Association, the reporting obligations deadlines will be as follows: 11 April 2020, reporting obligation for credit institutions and investment firms as well as all third-country regulated firms; 11 July 2020, reporting obligation for central securities depositories and central counterparties; 11 October 2020, reporting obligation for all other financial counterparties; 11 January 2021, reporting obligation for all non-financial counterparties.

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Clifford Chance shares legal opinions on GMSLA

The International Securities Lending Association (ISLA) has released legal opinions from Clifford Chance to support the completion of the Global Master Securities Lending Agreement (GMSLA) pledge structure project.

As part of a commitment to support the use of global master agreements, ISLA in conjunction with Clifford Chance and industry stakeholders, have developed a pledge collateral version of its existing GMSLA.

The new agreement is based on the existing GMSLA 2010 and provides ISLA members with an alternative to the title transfer framework.

ISLA explained: "The legal opinions cover each security agreement under its governing law (English, Belgian and Luxembourg), and each opinion also looks at the financial collateral arrangement analysis under that governing law by reference to the security agreement and the relevant tri-party custody documentation."

ASIFMA proposes new workable securities lending regime in China

The implementation of a workable securities lending regime in China would be helpful, according to the Asia Securities Industry & Financial Markets Association (ASIFMA).

The ASIFMA report—Foreign Institutional Investment in China—explained that it would help to implement a workable securities lending regime with not only brokers but their affiliates, asset owners and their lending agents being allowed to engage in securities lending.

Such a regime would be helpful if it could help tie Foreign Institutional Investors (FIIs) over the current tight settlement timeframe and minimise the possibility of a failed settlement, ASIFMA explained.

In addition, adopting international standards with respect to block trading, short selling, margin financing, derivatives documentation, the disclosure of interest and short swing profits are some of the other areas that FIIs would like to see China move towards for equities investment and trading.

ASIFMA noted: "An efficient securities lending environment helps enhance overall equity market efficiency, enable efficient hedging to better manage risks and protect against failed trades that may arise due to the tight settlement timeframe."

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"Brokers/exchange participants who know that a settlement failure may occur because of operational constraints before it happens would benefit from being able to take action to avoid this failure, such as temporarily borrowing shares from the account of its affiliates to prevent a settlement failure."

According to ASIFMA, although securities lending is allowed under stock connect, it is barely used in Hong Kong because the only parties permitted to engage in securities lending are exchange participants.

It was suggested that investment managers or their lending agents (for example custodians) who have stock inventory to lend but who are not exchange participants should be allowed to participate in securities lending.

In addition, more clarity on the rules on how securities lending would work under each of the different access channels would be welcomed by ASIFMA.

Meanwhile, in terms of short selling, the report highlighted that the current Stock Connect rules allow covered (but not naked) short selling for northbound trades subject to certain requirements.

ASIFMA added: "For example, the number of shares which may be short sold is limited to 1 percent of the total number of the same shares held by Hong Kong

Eurex sees volumes in repo rise

Eurex's recent launch of its Partnership Program in special repo and general collateral instruments is seeing a solid basis to accelerate further growth, Eurex's head of funding and financing sales, Frank Gast revealed.

Gast explained that average daily outstanding volume in the Eurex repo markets year-to-date is 24 percent above the comparable prior-year period.

He also noted that volume in special repos was up 27 percent, and that of general collateral pooling was up 12 percent year-on-year. Repo trading in German Bunds rose by 29 percent.

Most of the repo partnership banks have become more active in recent months with a large focus on term transactions, according to Gast. As a result, order book activity on Eurex Repo's F7 has broadened.

The programme has been active for six weeks, and since the end of the early registration period at the end of November ,four further international market players have joined the programme.

The international market players include Banco Bilbao, Vizcaya Argentaria, NRW Bank and Société Générale.

Based on the February figures, the top ten performers have already benefitted from the first revenue sharing.

From July on, the top five will then be included in the governance and committee structure of Eurex Repo and Eurex Clearing.

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Merrill Lynch receives $8 million fine over ADRs

The Securities and Exchange Commission (SEC) has fined Merrill Lynch, Pierce, Fenner & Smith Incorporated over $8 million to settle charges of improper handling of "pre-released" American depositary receipts (ADRs).

It was found that Merrill Lynch improperly borrowed pre-released ADRs from other brokers. The commission revealed that Merrill Lynch should have known that those brokers—middlemen who obtained pre-released ADRs from depositaries—did not own the foreign shares needed to support those ADRs.

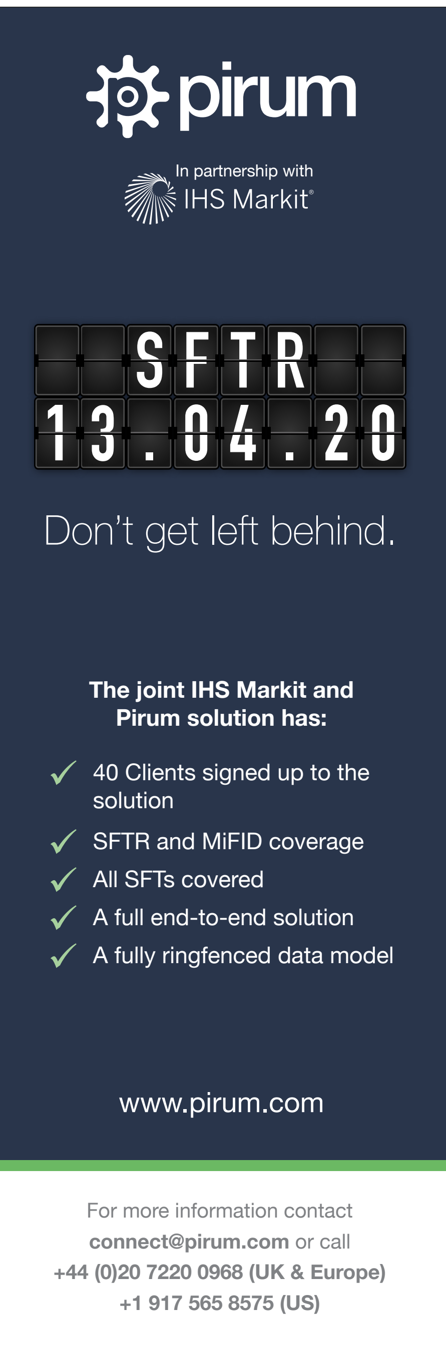
The SEC said such practices resulted in inflating the total number of a foreign issuer's tradable securities. This led to abusive practices such as inappropriate short selling and dividend arbitrage that should not have been occurring.

The order against Merrill Lynch found that its policies, procedures, and supervision failed to prevent and detect securities laws violations concerning borrowing pre-released ADRs from these middlemen.

ADRs are US securities that represent foreign shares of a foreign company, and they require a corresponding number of foreign shares to be held in custody at a depositary bank.

The SEC cited: "The practice of 'pre-release' allows ADRs to be issued without the deposit of foreign shares, provided brokers receiving them have an agreement with a depositary bank and the broker or its customer owns the number of foreign shares that correspond to the number of shares the ADR represents."

Without admitting or denying the findings, Merrill Lynch agreed to pay more than $4.4 million in disgorgement of ill-gotten gains plus over $724,000 in prejudgment interest and a $2.89 million penalty for total monetary relief of over $8 million.



investors on a trading day (calculated in real time throughout the trading day) and no more than 5 percent cumulatively over 10 successive trading days (calculated at the end of each trading day)."

"These limits are not known until after the market closes and therefore, in practice, it would be difficult to engage in short selling."

Citi offers services to entities within EEA in light of Brexit

Citi is now offering its product and service suite from entities fully within the European Economic Area (EEA) due to its commitment to provide services to clients regardless of the Brexit outcome.

For EEA clients and counterparties unable to conduct business through Citi's UK entities post-Brexit, Citi's products and services are now additionally available through Citibank Europe plc and Citigroup Global Markets Europe AG.

Meanwhile, Citi's new investment firm in Frankfurt, Citigroup Global Markets Europe AG, has begun actively trading on the most significant exchanges in the EEA. Additionally, it has commenced primary

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capital market issuance activities, and is on-boarding and executing for clients across the bank's entire markets and securities services product spectrum. It has also begun clearing trades via Eurex Clearing.

The new EEA capabilities complement Citi's long-established, comprehensive offering throughout Europe.

In addition, Citi has an on-the-ground presence in 20 of the 27 post-Brexit EU countries and has been in some European countries for more than a century.

Prior to the Brexit vote, in excess of 60 percent of Citi's EU workforce was already located outside of the UK.

London remains the centre of Citi's UK business, as well as its headquarters for Europe, Middle East and Africa region, and an important global hub, Citi revealed.

David Livingstone, Citi's CEO for Europe, Middle East and Africa, said: "Since well before the Brexit vote in 2016, all our businesses have been focused on making sure we can continue to serve our clients in the UK and EEA, irrespective of the political outcome."

The Wirecard ban is 'bizarre' and 'backwards', claims Fahmi Quadir

Fahmi Quadir, founder and CIO of Safkhet Capital Management LLC, has criticised the German Federal Financial Supervisory Authority (BaFin), for banning short selling on Wirecard.

In a letter addressed to Jean-Pierre Bussalb, head of short selling section, Quadir called the ban "bizarre" and "backwards", and noted that as a trading strategy, short selling is widely acknowledged as beneficial and a necessary countervailing force to maintain market efficiency.

BaFin halted short selling on Wirecard in February, claiming that its falling share price has caused uncertainty in the market.

Safkhet Capital's has held a significant short position in Wirecard equity and remains significantly short since its inception in January 2018.

Quadir's letter said: "On 30 January [2019], Wirecard shares fell just 13 percent despite investor disappointment on weak fundamentals, emerging information related to potential fraud from internal Wirecard employees, and a dizzying near 300 percent share rally since 30 January 2014."

"I ask you if BaFin was aware of these elementary facts when it evoked the short selling Bogeyman through its 'market manipulation' probe. I am a proud participant in various public markets globally and until 30 January, I had never seen a regulator—on such an immaterial price decline—

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so prematurely provide tacit support to an issuer facing serious allegations of fraud while demonising the financial media."

Quadir also highlighted in her letter that the discourse leading to the ban and the divergence of Singapore and German regulatory action, enveloped in Wirecard's facile dismissals of serious allegations of fraud is inarguably problematic.

She also criticised the accuracy of BaFin's statement: "You further state that the ban will not have a far-reaching market impact within Germany. Yet, you also argue that the price and volatility of Wirecard will have a far-reaching market impact and necessitates a ban. Not only are both statements contradictory, but neither statement is also fully accurate".

"I agree with BaFin that recent Wirecard-related activity does pose a dire threat to German markets. Market participants are quickly realising that German regulators cannot be relied upon to effectively or objectively engage with the markets and are deliberately besmirching their fundamental duties. When such a degree of doubt is introduced as far as regulatory intent, market integrity quickly disintegrates."

Elsewhere in the letter, Quadir asserted that short sellers stand to profit if fraud is exposed to the markets and facilitates downwards price discovery but explained that this precise economic incentive is why BaFin should listen carefully to the short selling information traders—the more credible and material this information, the greater profit.

She argued: "The current ban on Wirecard short sales removes this critical incentive. And yet, no market participant is more acutely aware of the criminal repercussions of disseminating misinformation than short sellers."

Additionally, Quadir condemned BaFin's supposed lack of deep understanding, she remarked: "Market history and scientific study are near-unanimous in understanding the critical role of short sales in the market."

"Despite the decades-old Bogeyman story perpetrated by failing companies, the data indicates it is all but a strawman. Those charged with safeguarding financial markets should know better than to perpetrate such a deceptive narrative."

Quadir added: "We unequivocally support actions taken to address all forms of market manipulation. However, such seemingly unilateral regulatory effort, prompted without sufficient evidentiary disclosure, can create a toxic environment where whistleblowers will avoid coming forward for fear of civil or criminal penalties for telling the truth."

"BaFin's actions may set a dangerous precedent for market cosseting and capitulation to corporate influence."

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SFTR: 12 months to go

Years of speculation finally came to an end on 22 March. The Securities Financing Transactions Regulation (SFTR) finally entered the EU’s Official Journal thereby ending a legislative journey that traces itself back to a 2013 Financial Stability Board report.

The regulation will “enter into force on the twentieth day following that of its publication” meaning 11 April 2019. The first entities to report will be banks and the Markets in Financial Instruments Directive (MiFID II) firms 12 months later: 11 April 2020. As reporting is by T+1, the first SFTR reports will need to be submitted to a trade repository by midnight 12 April. Other participants will be staggered in at three-month intervals afterwards. The final legislation is 99 percent the same as the drafts presented by the European Securities and Markets Authority (ESMA) two years ago in March 2017. Given this, one might expect the industry to be well-prepared, in the final stages of remediation work—you’d be wrong.

A roadmap to compliance

SFTR requires daily reporting of repos (plus buy-sell backs), securities and commodities lending and prime brokerage margin lending. Not only new transactions must be reported but also life cycle events such as partial returns, modifications and early terminations. Additionally, aggregate initial and variation margin posted to the clearing house on a portfolio level. Finally, there are six types of reports comprising 155 fields spread across four XML schemas. The number and size of the individual XML messages is huge and will require considerable IT input.

In my job I get to meet the principle vendors, trade repositories, market regulators and state banks. There are dozens of teething questions for which answers do not yet exist.

What should you be doing?

Stage one must be training. Your IT staff, middle office and BAs will struggle to make sense without an initial injection of expertise. A lack of expertise at inception will lead to costly mistakes in analysis and design, in extremis leading to a total failure of the project. We recently heard of a large investment bank ploughing resources into SFTR project work only to realise months later that their entire effort was wasted due to misunderstanding the regulation.

It is essential to understand what SFTR transaction reporting entails in granular detail, including the 155 fields. Market FinReg produced the first training course in conjunction with the largest pan-European trade repository, Regis-TR. Having understood the reporting regime, the next stage is to conduct a detailed impact analysis. We have been conducted such analyses for clients and can confirm SFTR-related changes are profound and span across large parts of organisations.

Client categorisation/delegation; trade capture and booking systems; allocations; venue/lenders/agents liasing and dialogue to obtain additional timely data and confirmations; matching and UTI generation/sharing all require profound changes. Clearing and settlement require tweaks. Collateral management requires analysis especially to track reuse and extensive reference data need to be captured, or more realistically the employment of a vendor for enrichment.

Some 40 percent of the required data fields are not held by a typical firm. The other data that is in-house is siloed and not readily available. Extensive IT build is required.

ESMA’s commissioned research suggests that the average cost to a typical tier 2 firm—not the top investment banks—is €300-600,000, which includes €50-100,000 in consultancy fees. For self-build, they estimate such firms will take one and a half to three man years. Of course, these are average figures but if your senior management has not yet allocated this level of resourcing, you will struggle to reach compliance.

Having completed an impact analysis, the project board needs to take certain strategic decisions, principally which chunks of the project will be procured from third-party vendors and which will be built in house. IHS Markit/Pirum and EquiLend/Trax are the principle vendors who are offering various levels of packages.

For the smallest market participants who only occasionally engage in SFTs, our advice is always to strongly consider pulling out of the market and seeking to replicate returns/cashflows via funds. Having made certain strategic decisions, a full gap-analysis should occur and solutions designed and built.

To help the industry get up to speed, Market FinReg and Regis-TR’s training courses are being held in May in London, Frankfurt, Madrid, and Luxembourg are always online. Delegates so far have come from leading market regulators across Europe, tier-one investment banks, hedge funds and state banks. Market FinReg is also helping firms with rapid-fire impact analyses to help firms catch up. 12 months is precious little time so, as the dictum goes: you need to begin yesterday. **SLT**

Seb Malik
Head of financial law
Market FinReg

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Raoul Bhoedjang
Chief technology officer
HQLAx

Trends in technology

Recently appointed Raoul Bhoedjang of HQLAx discusses his new responsibilities, and explains how technology is changing the industry

Maddie Saghir reports

What are your responsibilities in your new role at HQLAx?

A key responsibility is to grow and nurture a top-notch tech team. The platform performs high-value transactions in a highly regulated environment and runs on a state-of-the-art distributed ledger platform. For these reasons, we're looking for top engineers with a very solid understanding of computer science fundamentals, especially in areas such as databases, distributed systems, security, and cryptography. Another important responsibility is to work with our partners to deliver the HQLAx platform to our customers. We have been working very closely with both R3 and Deutsche Börse over the past months to ensure that all systems are technically aligned.

What technology trends are you seeing at the moment?

Transaction privacy is important to our customers and there are lots of interesting developments in the areas of cryptography and security, including zero-knowledge proofs and hardware-supported trusted computing. These technologies are potential enablers for running systems in the cloud rather than on-premise.

There are mixed opinions in the industry as to whether or not technology is a disruptor, what are your thoughts?

I think the biggest changes occur when a technological breakthrough coincides with a particular pain point that can be addressed by technology. Clearly, a fragmented settlement system is painful. Technology for atomic settlement and manipulating shared records in a verifiable manner comes at the right time.

How are regulations affecting technological innovation within firms?

In a way, regulations provide us with a market opportunity, because they lead to a demand for high-quality liquid assets. Of course, regulators also impose many tough nonfunctional requirements on platform availability, security, and integrity. This is what regulators should do and what customers deserve. It's challenging at times, but it forces new platforms to become mature very rapidly.

What challenges are you seeing around technology?

Integrating our distributed ledger technology (DLT) platform with existing infrastructure is a mixed blessing: we don't have to build everything from scratch, such as a trading platform, but we do have to spend time on integration. Also, some of the benefits of DLT can only be reaped with deep integration into existing infrastructure, but that type of full integration requires time.

How is HQLAx and Deutsche Börse's blockchain securities lending solution progressing? And how will this work?

Technically, the solution consists of the Eurex trading platform, where trades are initiated, the DLT platform, where asset ownership is tracked, and a trusted third party layer that manages accounts at participating custodians.

Once the solution is live, customers will have the option to run their own Corda/HQLAx node or they can opt for a hosted solution. We will initially go through a test phase in which trades are performed without any actual transfer of value. We are going through such as phase internally, right now, but clients want and need to do the same thing.

Is there anything else in the pipeline that HQLAx is working on?

The technology team is now fully focused on delivering the MVP for upgrade/downgrade securities lending transactions. There are, however, many ideas for extending the current platform. Such ideas include swapping securities against digital cash, pledging baskets of securities, and forward lending.

What opportunities do you see around technology in the securities lending industry over the next five years?

It's hard to be precise about the timelines, but we are now going through a phase where we record and manage ownership of securities on a ledger. Ideally, the underlying securities themselves would be managed on a ledger. And of course, having cash on a ledger should also help the securities lending industry. **SLT**

Dropping in demand

As industry participants still get to grips with GITA and the drop in demand for German securities, further challenges surround SFTR and the effects of Brexit

Maddie Saghir reports

At the time of writing, the German market, and the rest of the EU is preparing for Brexit with the date forecasted to be 12 April, a delay on the original deadline of 29 March. However, the bigger challenge for the German securities lending market will be preparing for the upcoming Securities Finance Transactions Regulation (SFTR), which is due to be fully implemented next year. In addition, there has been a notable drop in demand for German securities. Industry experts predict that opportunities for the upcoming years in Germany lie in the technology space around blockchain, artificial intelligence (AI) and machine learning.

Last year saw the implementation of the German Investment Tax Act (GITA 2018), which introduced the taxation of manufactured dividends and lending fees on German equities. The Manufactured Dividend Rule renders securities lending and repo income subject to

a 15 percent German taxation in the hands of a lender and repo seller, respectively when such lender or repo seller is an investment fund. It also modifies the taxation income by creating two tax regimes, one for non-tax transparent investment funds and the other for transparent special funds. Prior to GITA 2018's implementation, the rule was described as murky, inconsistent and unnecessary.

Today, the market is gradually becoming more adept to deal with these new rules. Commenting on GITA, which was implemented on 1 January 2018, Andrew Dyson, CEO of the International Securities Lending Association (ISLA), says: "As the market considered how best to comply with these new rules and the potential obligations on the borrower to apply German withholding, many underlying lenders and their agents stood away from the market."

He explains that this has "resultant impacts" on both overall supply and market volatility. However, he says: "As we move into 2019 the market is learning to work within these new rules yet remaining cautious."

One industry expert notes that Germany has seen some fundamental changes over the past few years, and explains that the introduction of a 45-day holding period and a restriction on the level of hedging allowed dramatically reduced the demand for German securities.

The expert alluded to GITA, which reduced the liquidity quite dramatically for certain fund types. Interestingly, for those funds that were deemed 'out of scope', there was an increase in demand in 2018, and demand outstripped the available supply in many securities.

So far this year, the expert suggested, we have not seen the same level of demand—mostly because some of the initially restricted inventory is now available and returns have been muted to year-to-date. Expectations are that the German market will not return to its previous levels in the future, which could potentially impact German market liquidity going forward, the industry expert explains.

Ali H Kazimi, managing director, Hansuke Consulting, comments: "The cross-border German securities loan market has contracted significantly on account of the different tax measures. Lenders and borrowers have made their absence felt, particularly during dividend season."

Kazimi said that an interesting devlopment last year was "the court decision in relation to a historic corporate action in respect of MAN SE. This has raised interesting issues for both the borrowers and the German investors within the lending mutual fund. The action raised pertinent tax technical issues such as whether the cash amount received by the beneficial owner could be classified a dividend under German tax law".

Christian Schuetze, head of cross asset secured financing sales DACH & Nordics, Société Générale, noted that the securities lending market in Germany saw a massive change during the last five to 10 years. He stated: "While collateral scarcity was a major topic during the last few years—mainly driven by the implementation of European Market Infrastructure Regulation (EMIR) requirements and the purchasing programmes of the central banks—this scarcity never really materialised. At the same time concerns about balance sheet usage arose. The result was a more balance sheet aware approach in trading."

"Volumes have been shifted to central counterparties to achieve netting effects, and the securities finance market has moved from physical to synthetic financing. Unfortunately, from a German perspective, this mainly happened in the interbank market and not to the same extend with regards to business of beneficial owners."

Getting to grips with GITA

Kazimi explains that GITA introduced measures to clamp down on trades between foreign—for example, non-German resident counterparts—and German resident shareholders around the dividend date of the shares.

He asserts: "Such trades, according to the authorities, were motivated by a desire to monetise the German withholding tax credit on the distribution (the so-called "cum/cum" transactions). To be eligible for a credit of German dividend withholding tax, under the measure, a German shareholder has to have owned the shares for at least 45 days during a window period of 45 days before and after the dividend distribution date. In addition, the shareholder must bear at least 30 percent of the risk of a change in the value of the shares during that period. This had the net impact of driving liquidity away from overseas loans of German securities."

Discussing GITA's significant effect on the supply, one industry expert highlights that the majority of in-scope lenders do not want to assume the German tax self-assessment compliance obligations triggered by receiving securities lending payments from non-German borrowers that are subject to a German corporation tax charge under GITA.

The industry expert suggests: "Many have curtailed their loans of German securities accordingly. In some circumstances, this reduced supply has had the effect of squeezing borrower demand and created upward pricing opportunities for lenders that have been able to remain active in the German market."

"However, as a result of Brexit, London-based borrowers who relocate their trading function to Germany will be considered German resident borrowers and therefore responsible for collecting the tax due under GITA with regard to manufactured payments. This change should, therefore, help lift the tax GITA compliance obligation from those in-scope non-German lenders and help provide a progressive increase in liquidity."

Simon Heath, regional head of agency securities lending for Europe, the Middle East and Africa at J.P. Morgan, affirms that the German equity lending market has seen revenue growth despite changes in regulation, which affected the lending market ahead of GITA. Heath recalls that in the run-up to the implementation of GITA, the German lending market did witness a dip in equity availability, as in-scope positions were recalled from the market ahead of the new regulation deadline.

He says: "There may not be a direct correlation between GITA and this decline; however, it cannot be ruled out as a contributing factor. Conversely, demand remains strong and has been centred on stability and thus the communication between the beneficial owner, the agent lender and the borrower. It is clear that sourcing stable stock has become a priority by borrowers compared to 2018."

In terms of fixed income, Heath highlights that German sovereign lending has been a standout asset class for a number of years. After a relatively subdued start to 2019, there have been a gradual increase inflows across the German sovereign space.

He continues: "As such demand for bunds—and other high-quality liquid assets (HQLA)— in collateral upgrade structures (especially against equity collateral) has declined somewhat versus the same period in 2018."

Heath suggests that J.P. Morgan is also seeing pricing pressures on remaining trades. He explained: "In the repo market funding rates have continued to cheapen as balance sheet pressures have abated significantly, while on the demand side, the decline and end of the European Central Bank's purchases have contributed to a reduction in distortion of the curve. As a result, there have been fewer opportunities for relative value funds which are reflected in lower specials in 2019 and further tightening pressure in cross currency basis markets."

BaFin's ban on short selling Wirecard AG

Elsewhere, in Germany's market, the German financial regulator, Federal Financial Supervisory Authority (BaFin), halted short selling on Wirecard AG due to its falling share price causing uncertainty in the market. BaFin indicated a decrease in the Wirecard share price occurred between 30 January and 15 February 2019.

Christian Schablitzki, managing principal at Capco, Germany, highlighted that BaFin's decision to ban short selling in Wirecard AG for two months through to 18 April to prevent potential negative impacts on the German financial system stemmed from the fear that any 'erratic losses' in Wirecard stocks could have spill-over effects to other financial stocks, such as Deutsche Bank or Commerzbank, both of which were trading at relatively very low levels. Schablitzki notes that the ban is more to do with maintaining overall financial stability than to Wirecard AG, which represents some 1.25 percent of the total value of the German DAX.

Reflecting on the effects of the Wirecard ban, Dyson exclaims: "Reactions to the decision to suspend short selling in Wirecard were mixed. On the one hand, many felt this was a strong stance from the regulator, while others felt that all that short sellers had done was to focus attention on certain alleged accounting and financial fraud allegations within the company."

He continues: "We should not forget here that all short sellers are doing at one level is to simply express the sentiment in a particular security. What is clear here is that the current short selling rules that apply across Europe that require any short positions to be against an identified borrow or locate, do appear to be working although the debate still continues about the role of the BaFin in this particular case."

Kazimi says: "The market intervention is being looked at seriously. Obviously, if there are going to be regular regulatory interventions to restrict covered short sales, that will eventually drive down the demand for securities borrowing."

Client trends in Germany

Discussing what trends can be seen from clients in Germany, Dyson noted that ISLA does not have many direct relations with underlying clients in Germany so it is hard to be precise. He expands: "The feedback that we have received suggests, however, that many institutions are actively looking at securities lending either for the first time or returning to the market after standing away from this market post the financial crisis."

Schuetze noted that the securities finance business with German beneficial owners is a big but very traditional business. He said: "The majority of the market participants are doing their business in physical stock lending and with a bilateral collateral management. A clear trend is the attempt to become more efficient on the collateral side."

"In some cases this means a change from bilateral to triparty collateral management, in other cases it is a more systematic approach to identify and focus on high value assets in their own asset pool. With regards to synthetics, we have recognised an increasing interest in different structures, but it is far away from a regime change as of now."

Tom Riesack, executive director at Capco, Germany, suggests there is a a focus on global issues such as the Interbank Offered Rate transition and regional considerations such as Brexit and SFTR. Riesack said: "Markets in this low-interest environment offer low margins, and we are seeing some concentration of business at larger players/incumbents. On the technology front, there are ongoing discussions around how best to reduce the costs associated with securities lending by simplifying the technology stack. And collateral is once again re-emerging as a bigger focus as firms assess how it can be optimised across product silos."

Heath inferred that J.P. Morgan is seeing a rapidly evolving shift in the traditional role of agent lender from one whose focus was generating portfolio returns via securities lending to a more holistic facilitator of a client's overall collateral strategy in Germany and across EMEA.

He adds: "The functionality and connectivity in place for a securities lending programme can be adapted very well to optimising a client's asset pool, allowing collateral and regulatory obligations to be met across different venues and exchanges while ensuring more "valuable" securities from a lending perspective remain unencumbered. Traditional securities lending, in this sense, is just one element of a far wider collateral motivation and strategy."

Challenges ahead

Upcoming challenges for Germany's securities finance space this year and 2020 include the effects of Brexit and SFTR. As well as this, Kazimi points out that recent comments by Germany's finance minister, Olaf Scholz, report significant progress made on the plans to introduce a financial transaction tax (FTT) in European Union countries that support the project, including Germany. While the precise scope of FTT is being determined, there is a risk that this may have an impact on liquidity.

Fran Garritt, director of securities lending and market risk of the Risk Managament Association, comments: "Germany will face the same challenges from a regulatory perspective as all of the EU markets, including SFTR, which is a major effort on behalf of the industry and not specific to Germany, and the great unknown that is Brexit." He notes that for the German market specifically, "it will be interesting to watch how the news around a possible merger between Deutsche Bank and Commerzbank takes shape over the course of 2019, and also how BaFin's unprecedented ban on new shorts in Wirecard works out. There has been a lot of coverage on this already, with possible legal action against the BaFin being suggested".

"Brexit will impact markets across Europe as businesses may have to be done out of entities located on the continent, thus banks and broker/dealers will have to change their operating structure. However, efforts to ensure market activity is not disrupted have been ongoing."

Lara Fries, principal consultant at Capco, Germany, emphasises that without a doubt, SFTR is the biggest challenge facing the industry in Germany. She explains that the reuse of securities to increase liquidity induces complex transfers between traditional and shadow banks which might jeopardise financial market stability, and the regulation intends to mitigate this risk.

Fries says: "This will demand increased transparency around complex securities financing transactions to identify counterparties and monitor the concentration of risk. There will also be an obligation for market participants to report information on securities financing transactions to an EU-wide acknowledged trade repository (TR). That might be the same as the European Markets Infrastructure Regulation TR, but Brexit may mean that it becomes necessary to report to two different TRs."

"The biggest challenges next to SFTR will be Brexit. Trading behaviours will have to change as the UK transitions to third country status upon exiting the EU; it remains to be seen how regulatory equivalence will be achieved if indeed it is at all. Preparations to address the major transformational challenge posed by the planned late 2021 transition from interbank offered rates (IBORs)—most famously LIBOR and Euribor—to new risk-free benchmark rates will also prove burdensome for firms."

Additionally, Dyson says that as we look at 2019 and into 2020 more broader, issues prevail in both Germany and the rest of Europe where the lack of securities lending specials on the back of low levels of fundamental alternative investment activity, is limiting lending opportunities. He adds: "Brexit in isolation, whatever form or timescale should not impact the German market specifically, although the potential loss of access to London market liquidity could affect this and other continental European securities lending markets."

Heath argues that the same challenges presented by SFTR are also its biggest opportunity if the industry can solve for them. He suggests: "SFTR is providing a stimulus towards greater automation than ever before. In recent history, a major portion of the lending industry's technology budget has been taken up by regulation, which could be argued has been at the expense of innovation and take up of wider automation."

"However, with SFTR, there is a notable move towards leveraging key technology partners to increase levels of on-venue trading, post-trade matching and reconciliation providers as well as looking at standardisation of data and options to centralise reporting through vendor partners. SFTR and CSDR are regulatory pressures that could move the market to automate and innovate where it has previously been slow to adapt. This is clearly a positive consequence of what will undoubtedly be challenging regulatory reporting requirements."

Opportunities on the horizon

In terms of the opportunities that GITA could bring, Kazimi remarks: "The biggest game changer would be the EU Capital Markets Union. The drive towards harmonised EU markets will require liquidity to be injected into the market, and the best way to do this is for the removal of market impediments. The other big opportunity lies in the technological possibility of blockchain. At present on account of the successive tax measures, the 'baby has been thrown with the bath water'. Perfectly legitimate trades have been removed from lending programmes on account of having to satisfy onerous beneficial ownership requirements."

Riesack also believes that technology could provide opportunities for Germany for the next five years, he comments: "Looking forward, digitalisation obviously comes to mind. We recently saw the first securities token offering (STO) in Germany, and this may have an effect down the road for securities financing markets: namely, with more STOs emerging, how do you lend or repo tokens? Also, can DLT/blockchain technology serve to ease or enhance overall end-to-end processing? Introducing robotic process automation to streamline processes may be a good first step forward." But Riesack notes that this is not too dissimilar from the other main investment markets across Europe.

However, Dyson adds: "Set against the backdrop of a lack of both volatility and fundamental activity in the equities markets, opportunities in the German market look limited at this point in time." **SLT**

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THE DEVIL IS IN THE DETAILS

FIS's David Lewis discusses the countdown to SFTR and the significant amount of work market participants have ahead of them

After a long and protracted process, with multiple layers of consultation and review, the European Commission and Parliament have reached a decision. Not Brexit, of course. At the time of writing, that process is rumbling onward, and not necessarily always in the same direction. Instead, our focus is on another major change affecting many EU organisations directly, and many others indirectly. Namely, this is the Securities Finance Transaction Regulation (SFTR). Like Brexit, it seems to have been a near-constant source of speculation, discussion and analysis for, what seems like, well, forever.

Finally, the countdown clock is about to start ticking. As of the first or second week of April, the regulation will be published in the Official Journal of the European Union. Twelve months after that, the reporting obligations for the first tranche of market participants begins. With a date set, minds and resources need to focus on being ready in time. Most market participants, as evidenced by the high attendance rates at both the International Securities Lending Association (ISLA) and International Capital Market Association (ICMA) SFTR meetings, are well engaged and preparing to meet their reporting obligations. There is a wide range in levels of readiness, however, some market participants are just embarking on their SFTR journey, while others are at very advanced stages.

What all market participants have in common, is a significant amount of work ahead of them. Working backwards from an April 2020 go-live date, taking the most obvious large-scale tasks into

account, 12 months suddenly seems like a very short time. Figure one represents those high-level blocks with broad estimates of time scales. Taking each of those, in turn, the importance of each task can be highlighted.

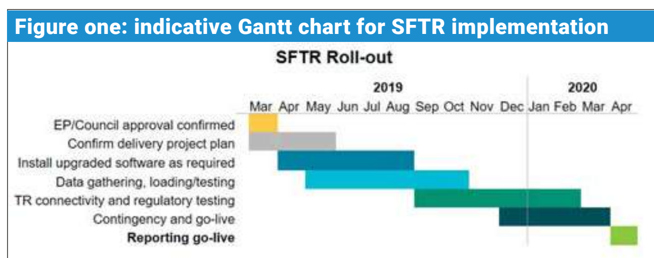

Figure one: indicative Gantt chart for SFTR implementation

Confirm delivery project plan

Confirmation of the overall project delivery plan can now be done. With a go-live date set, work now must be done on crystallising those milestones and marshalling the resources necessary to meet them. In FIS' view, our clients are moving to the latest versions of our systems to take advantage of not only the latest capabilities but the SFTR-specific enhancements that we are delivering.

Install upgraded software as required

Whatever system your organisation employs, it is likely that an upgrade or an additional module may be required. Getting that work done at your organisation is only half the battle—can your provider meet your upgrade needs alongside those of their other clients? From a simple project management point of view, this is potentially a real issue for some.

Data gathering, loading and testing

Data gathering, loading and testing cannot be underestimated. SFTR has added many new data fields for transaction reporting that the securities finance business has simply not had to consider before. These comprise contract details, including versions and signature dates, as well as specific counterparty and security data. Legal entity identifier codes, for example, will have to be sourced, not only for counterparts but also for the issuers of the securities traded. While European Market Infrastructure Regulation (EMIR) relies heavily on live LEI codes, they are not necessarily the same counterparties that the securities finance business trades with and, as such, there may be no short cut there.

Trade repository testing

Connectivity and testing with your chosen trade repository (TR) require selecting one of the many providers in this space sooner rather than later; failing to connect effectively to an authorised TR and understand exactly how that data transfer is going to work could invite project failure at the last hurdle. Again, this is not just a question of resources at your organisation. Anecdotes from TRs relay horror stories from EMIR implementation when clients engaged the week before go-live, demanding 5,000 new accounts to be set up.

The pressure to get it right—and on time

Gathering and managing the data represents only half the task when considering meeting the challenges of SFTR. The logic of what to report and when to report it, including all lifecycle events, is key to successful compliance. This is leading many market participants to examine their existing workflow and the capabilities of their trading systems. For example, if your system is incapable of undertaking some trade amendments or lifecycle events—such as partial returns or re-rates—without closing the original trade and opening a new one, then pairing and matching trades with your counterparties will be a challenge. Both ISLA and ICMA, together with market participant and system vendor committees are working on best practice papers addressing such issues. On that basis, process reengineering may become a very significant part of your SFTR implementation.

So much can be said about how to get this implementation right, but the impact of getting it wrong is also bringing the need to comply with SFTR into sharp focus. Three major market participants have recently been given somewhat eyewatering fines for failing to comply accurately with reporting requirements. The origins of SFTR lie with the Financial Stability Board, as implemented by the European Securities and Markets Authority, and the purpose of these requirements are to monitor, understand and, ultimately, control the market. If participants are not accurately reporting their trade and collateral data, irrespective of their views of the complexity and detail of what is required, then that monitoring cannot be effective. On that basis, it is not surprising that the Financial Conduct Authority (FCA) has been so aggressive in its approach to fining clients. It should not be overlooked that one aspect of a recent fine was for over-reporting trades, which indicates how regulators are pushing the onus very much on to data submitters to be accurate and not expect the trade repositories or the regulator to second guess what to measure.

Brexit, whether it occurs or not, is unlikely to have any effect on the implementation of SFTR. It is our understanding that the FCA is planning to adopt SFTR in its entirety irrespective of Brexit, meaning that the UK cannot stand outside of the regulation. Equally, a strategy considered by some participants who are out of scope avoiding any SFTR impact by ceasing to trade within scope counterparts is potentially a short-lived solution due to the ongoing rollout of the Financial Stability Board's Transparency Directive.

In summary, there is much to do within a shortening timeframe for completing the work. The confirmed timeframes will bring renewed focus, and the risk and impact of getting it wrong will also increase the pressure to get it right and on deadline. **SLT**

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Comings and goings at Credit Suisse, J.P. Morgan and more

Credit Suisse has bolstered its European, the Middle East and Africa (EMEA) prime finance organisation with the appointments of Lee Burrows, James Buckland, Gerry Murtagh, and Keith Levy, sources have confirmed.

Burrows will re-join Credit Suisse as managing director and head of EMEA global inventory optimisation (GIO), effective in April.

Burrows will report locally to Jeff Jennings and functionality to Rob Bernstone. He will also work closely with Grant Rippetoe.

Prior to Credit Suisse, he was head of delta one at Nomura from 2011 to 2013. Before this, he spent 13 years at Credit Suisse where he was European head of global arbitrage strategies within the SMG group.

Meanwhile, Buckland will join Credit Suisse in EMEA as managing director and he will report to Burrows. Most recently, Buckland served at UBS where he spent the last 23 years in various roles including co-head of equity finance Europe, global head of stock loan, and global head of delta one.

Buckland will work closely with Burrows to build out Credit Suisse's GIO framework in Europe partnering closely with the Americas GIO team, a source said.

Murtagh has been appointed head of EMEA flow financing, including securities lending, alongside his current role as head of prime services for Dublin Branch.

Based in Dublin, Murtagh will drive Credit Suisse's single stock flow financing strategy across the equity floor in coordination with Credit Suisse's US colleagues.

He will partner closely with the equity sales and sales trading teams, the electronic products team and the equity flow derivatives team.

Levy has been appointed as head of EMEA prime finance index and exchange-traded funds (ETFs) while continuing to be responsible for the index/sector, custom baskets and ETF products.

In this role, he will focus on trading and risk management, balance sheet/capital optimisation and trading technology for this product line.

The Basel Committee on Banking Supervision has appointed Carolyn Rogers as its next secretary general for an initial term of three years, effective 14 August this year.

As part of her new role, Rogers will serve as the chair of the committee's policy development group.

Rogers has 20 years of executive management experience in the financial services industry and has worked in both the public and private sector.

Since mid-2016, she has been the assistant superintendent of regulation at the Office of the Superintendent of Financial Institutions (OSFI) in Canada and also OSFI's representative on the Basel Committee.

Meanwhile, Mario Draghi, chairman of the Basel Committee's oversight body, the group of central bank Governors and Heads of Supervision (GHOS), and European Central Bank president, expressed his appreciation of William Coen.

Pablo Hernández de Cos, chairman of the Basel Committee and Governor of the Bank of Spain, said: "Carolyn Rogers has a strong supervisory and regulatory background and has been an active and highly respected member of the Basel Committee over the past three years."

"Roger's broad experience, in-depth understanding of the Basel Committee and leadership skills make her an ideal appointment to the position of secretary general. I look forward to working with her in the coming years."

Discussing his appreciation of Coen, Draghi added: "William Cohen has done a tremendous job leading the Secretariat over the past five years, playing a pivotal role in the successful completion of the Basel Committee's post-crisis regulatory reforms."

Philip Freeborn joins Delta Capita from Barclays with more than 25 years of financial services experience.

Prior to joining Delta Capita, he held several CIO and COO roles, more recently as head of technology and operations for Barclays Investment Bank.

Before joining Barclays, Freeborn was CIO for UBS's global investment banking business.

Delta Capita noted that Freeborn also has considerable consulting experience.

Ed Corral is returning to J.P. Morgan as a managing director of collateral management after a decade at Morgan Stanley.

Based in New York, Corral will be responsible for defining product strategy, mainly for Phases 4 and 5 of segregation initial margin.

Corral served at Morgan Stanley from May 2009 to March 2019, first as global head of tri-party repo and most recently as global head of collateral optimisation.

Before Morgan Stanley, Corral served at J.P. Morgan from 1989 to 2009.

Commenting on Corral's appointment, J.P. Morgan said: "Adding someone of Ed Corral's calibre demonstrates the commitment we have to the business."

Danièle Noujaim has started a new position as stock loan and repo desk manager at Amundi, based in France.

Prior to Amundi, Noujaim worked at BNP Paribas Securities Services for 12 years in a number of roles including securities lending and repo, client management.

She also served as head of equity trading, securities lending, Paris desk at BNP Paribas Securities Services.

Mike de Beauvesier Watson has joined APG in the role of senior treasury manager.

In his new role, de Beauvesier Watson will be based in Amsterdam.

Most recently, he was a senior trader in securities lending at Robeco Group.

IHS Markit has recruited Rob Nunn to join its European, the Middle East and Africa securities finance team.

Based in London, Nunn will serve as product manager for services and solutions for beneficial owners.

He has 25 years of experience in the securities finance industry and has held various roles focused on securities lending at JPMorgan Chase and UBS Asset Management.

According to IHS Markit, his cross-functional, global expertise includes trading strategies, product management, client relations and business development.

Commenting on Nunn's appointment, Paul Wilson, managing director and global head of Securities Finance at IHS Markit, said: "I am delighted to welcome Rob Nunn to our team at IHS Markit."

"He brings extensive industry expertise and will be a great asset as we continue to expand our suite of services this year. Nunn has a strong understanding of the challenges that beneficial owners face and will help ensure that our services meet their needs."

Crédit Agricole has appointed Amanda Butavand as head of the secured funding and repo sales team in the UK for Crédit Agricole Corporate and Investment Bank (CIB).

In her new role, she will focus on expanding the company's UK secured funding franchise across all client segments.

Most recently, Butavand was senior repo sales at Crédit Agricole CIB.

Steffen Jordan has departed the industry after 22 years.

Jordan has been at SEB for nearly 13 years and his most recent role was as head of markets. Before this role, he served as head of securities finance.

Prior to SEB, Jordan was senior trader, equity finance, at DekaBank. Previously, he has also held roles at Goldman Sachs and BNP Paribas.

At Goldman Sachs, he served as trader equity finance and European credit repo, as well as sales trader, equity finance, prime brokerage.

While at BNP Paribas, Jordan was head of securities lending in Frankfurt. **SLT**

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