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Issue 262 29 September 2020

Building a strategy

around transparency, control, and optimisation

Malik's Memo
Seb Malik of Market FinReg says the opportunities for firms' expansion are huge and will result from five trends

Lending Newcomer
The Asset Management Exchange is now offering securities lending services to its buy-side clients

Data Analysis
Risk is a central theme of the year and REITs bearing the brunt of the COVID-19 market restructuring

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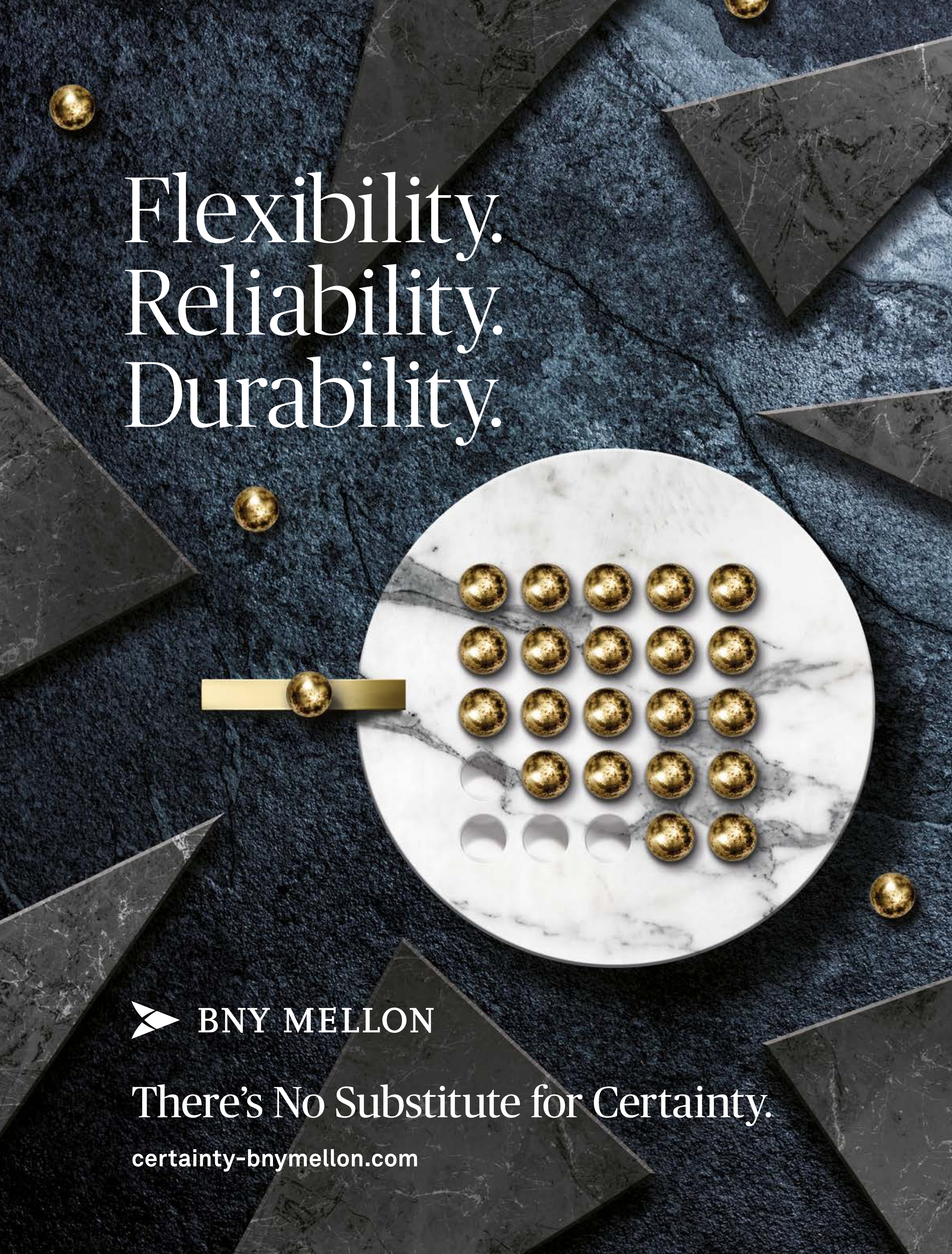

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MarketAxess snaps up Deutsche Boerse's Regulatory Reporting Hub

MarketAxess is set to acquire Deutsche Boerse's Regulatory Reporting Hub via Trax, its wholly-owned subsidiary in the Netherlands.

MarketAxess operates an electronic trading platform for fixed-income securities and provides market data and post-trade services for the global fixed-income markets.

It also hosts a joint solution with EquiLend for the Securities Financing Transactions Regulation (SFTR), along with its standalone UTI Portal, which caters to the regulation's unique transaction identifier (UTI) requirement.

The Regulatory Reporting Hub, meanwhile, is a pan-European reporting and compliance platform that enables buy- and sell-side clients to meet their regulatory obligations and transparency requirements across multiple regulations, such as the second Markets in Financial Instruments Directive and the European Markets Infrastructure Regulation.

The hub was expected to offer reporting services for SFTR, but plans to do so were shelved last year after it was unable to drum-up enough business to make it worthwhile.

The German exchange still offers SFTR services via REGIS-TR, its separate trade repository, which is unaffected by the sale.

Within Deutsche Boerse, the long-term viability of the hub is understood to have been uncertain for some time, as exemplified by the last-minute scrapping of its SFTR offering, and the exchange has quietly been seeking a way to offload the business for most of this year, SLT understands.

It is further understood that several potential buyers were in discussion with Deutsche Boerse during this period with the main attraction of the hub being access to its healthy list of clients in Europe, and Germany specifically.

Continued on page 6

Inside this issue

News Round-Up
EU short selling reporting threshold to remain lower
06

Malik's Memo
Predictions on future growth
Seb Malik of Market FinReg says the opportunities for firms' expansion are huge and will result from five current trends, including digitisation and ESG
18

Lending Newcomer
What's next for trade repositories?
Another European TR is set to close its doors in October amid rising costs and business hurdles in the form of Brexit and regulatory complications
23

Cover story
Building a strategy around transparency, control, and optimisation
BBH's Marney McCabe and Tom Poppey discuss assuming responsibility for a business during a global pandemic, how they are engaging with clients to meet their business goals and their outlook for the lending industry
20

Flexible Architecture
Point Nine: Driving innovation
Theo Mallas and Alan Dzhanaev at Point Nine discuss the service provider's success and what's next after SFTR's go live
27

Lending Newcomer
AMX breathes new life in SBL
The Asset Management Exchange's head of product Kerrie Mitchener-Nissen reveals the details of the platforms new SBL programme
30

Data Analysis
Safe as houses – or offices
Risk is a central theme of the year and REITs bearing the brunt of the COVID-19 market restructuring
33

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MarketAxess snaps up Deutsche Boerse's Regulatory Reporting Hub

continued from page 3

"With this acquisition, we're strengthening both our global post-trade and data businesses in two important ways: significantly extending our European client footprint, and increasing our ability to bring new, innovative technologies and solutions to a critical and complex part of the trade lifecycle," says Christophe Roupie, MarketAxess' head of Europe, the Middle East and Africa, and Asia Pacific.

In a statement on the deal, MarketAxess adds that purchasing the hub will help to further expand and enhance its established services particularly in Germany, France and the Nordics.

The transaction is expected to close in Q4, subject to the satisfaction of customary closing conditions. The terms of the deal are not publically available.

The hub is being sold through Regulatory Services GmbH, a subsidiary of Deutsche

EU short selling reporting threshold to remain lowered

The reduced threshold for reporting short positions in the EU will remain until 19 December, the European Securities and Markets Authority (ESMA) has confirmed as fears of a second wave of COVID-19 and further market disruption mount.

The EU's Short Selling Regulation requires the holders of net short positions in shares traded in its markets to notify the relevant national competent authority (NCA) if the position reaches or exceeds 0.2 percent of the issued share capital.

However, the EU financial regulator reduced this threshold to 0.1 percent as of 17 March to reflect the need for greater oversight of its markets during the period of market turmoil brought on by the COVID-19 pandemic.This threshold was initially expected to revert to its original level in June but ESMA extended the period until 17 September.

The decision means the lower reporting bar will now remain in place for a further three months.

"The COVID-19 pandemic continues to have serious adverse effects on the real economy in the EU with any outlook for a future recovery remaining uncertain," ESMA explains.

"While EU financial markets have partially recovered, the situation remains unpredictable particularly in the context of a possible second wave of infections," says ESMA

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Boerse Group and does not affect any other services provided by the German exchange. Both MarketAxess and Deutsche Boerse are reassuring the hub's customers that there will be a smooth service transition.

NCAs and tax authorities must unite to thwart cum-ex

Securities markets regulators should be empowered to share information with the tax authorities to crack down on cum-ex-related tax fraud, says the European Securities and Markets Authority (ESMA).

National regulators have been grappling with the issue of cum-ex tax fraud for more than a decade which is thought to have deprived tax authorities across Europe of an estimated €55 billion.

The fundamentals of a cum-ex trade require a complex process of borrowing and shorting securities over a dividend period in such a way that allows two parties to claim withholding tax exemptions on a single asset.

In its final report following a two-year review of how national competent authorities (NCA) can improve their ability to detect withholding tax reclaim schemes — known as cum-ex and derived from the Latin words for 'with' and 'without' — ESMA emphasises that any response should be "mainly sought within the boundaries of the tax legislative and supervisory framework".

For example, ESMA recommends legislative changes the Market Abuse Regulation to remove the legal limitations on NCAs exchanging information acquired from other regulators with tax authorities.

Additionally, a common legal basis should be developed to ensure a consistent and convergent approach on the exchange of information directly acquired by NCAs in their supervisory activity with tax authorities, the authority suggests.

"While halting these schemes seems

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to be primarily dependent on changes to tax legislation, ESMA considers that increased cooperation between NCAs and tax authorities across the EU would be an important step in identifying and deterring abusive schemes," says ESMA's chair Steven Maijoor.

There has been a spate of criminal and commercial court cases in Germany, the worst affected market, this year which led to two British bankers being convicted of criminal tax avoidance and handed suspended sentences in March.

In September Frankfurt's regional court ruled that Deutsche Bank was found not liable to reimburse a €167 million tax bill related to cum-ex deals paid by MM Warburg over a decade ago.

Thailand to lift short selling restrictions

The Stock Exchange of Thailand is set to revoke restrictions on short selling as of 1 October that were put in place in March during the worst episode of COVID-19 market panic seen so far.

The exchange imposed an uptick rule on short sales in mid-March after Thailand's equity markets suffered heavy losses as the pandemic spread through Asia. The rule was initially due to expire on 30 June but was extended to reflect the on-going market turmoil.

From October, normal rules on the pricing of short sales include a +/-30 percent ceiling and floor limit, with no up-tick rule.

Whereas, Thailand Futures Exchange will also reapply the +/-30 percent daily price limit rule, effective from the same date.

The decision was welcomed by the Pan Asia Securities Lending Association (PASLA) which is also encouraging other Asian markets with short selling restrictions, such as South Korea, to follow suit.

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South Korea recently decided to extend its blanket ban on short selling until 2021 instead of letting it expire this month.

The country's regulator cited concerns over fresh market volatility caused by a resurgence in COVID-19 cases in the country as justification for the six-month push back.

PASLA, in response, is calling on Asian market overseers to consider how "transparent, regulated short-selling can benefit all market participants by creating liquidity, allowing investors to manage risk and encouraging good corporate governance".

The association also believes that markets in which participants can express different views on stock prices will be more attractive to global investors and better positioned to "support economic growth and prosperity".

CloudMargin achieves $15 million capital raise

CloudMargin has raised $15 million in a Series B funding round, with Deutsche Boerse, Deutsche Bank and Citi acting as primary investors.

This marks the largest funding round yet for the collateral and margin management solution provider in a transaction that was advised by investment banking firm Jefferies. According to CloudMargin CEO Stuart Connelly, the funds will be utilised to further innovative the technological capabilities of the platform, as well as to expand sales and client services in the US and Asia to meet increased demand.

Connelly also highlights the impact of the COVID-19 pandemic has caused firms to take a larger "strategic priority on adopting modern, software-as-a-service based cloud technologies that provide agility as well as operational and cost efficiencies".

Going forward, Connelly notes representatives

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from the three investors will be given "an important voice" on the company's board of directors.

"During this unprecedented period of global turmoil and market volatility, it speaks volumes for the CloudMargin business model, achievements and strategy that we were able to successfully close this meaningful investment round with such high calibre partners," Connelly continues.

Joseph Macdonald, director of fixed income and currencies trading at Deutsche Bank, adds: "CloudMargin is a key partner for Deutsche Bank's collateral management division. "Our investment reflects our confidence in CloudMargin's world-class platform and its future within the industry."

LSEG and Euronext enter exclusive talks on Borsa Italiana purchase

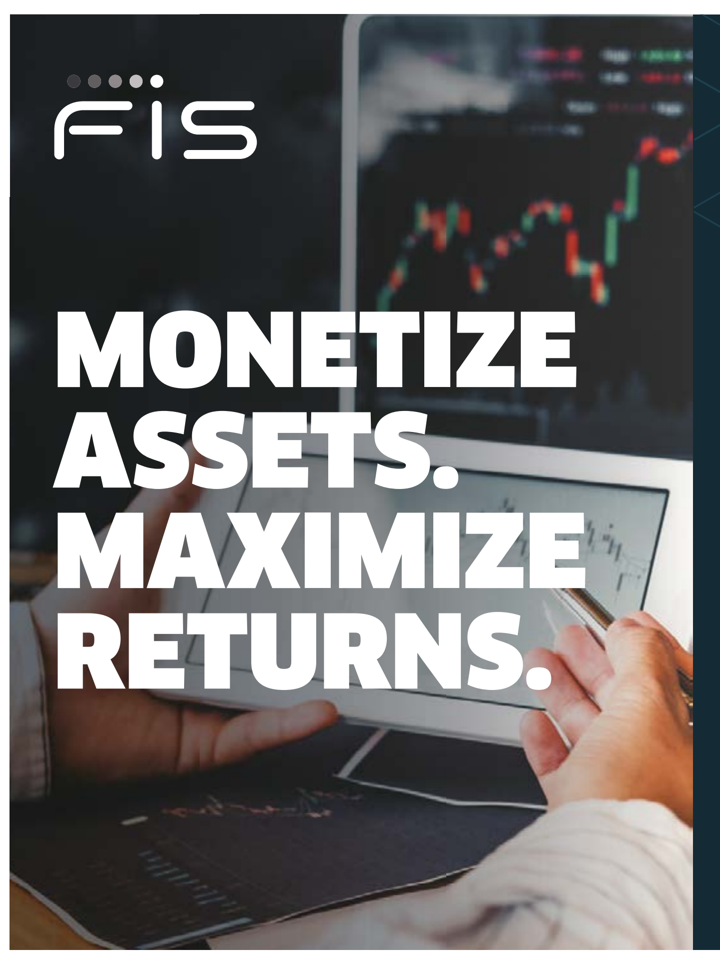
Euronext, the pan-European market infrastructure group, has beaten its competitors to enter exclusive talks with the London Stock Exchange Group (LSEG) to acquire Borsa Italiana.

To secure the G7 country's only exchange, Euronext has partnered with CDP Equity, an Italian sovereign wealth fund formerly known as Fondo Strategico Italiano, and Intesa Sanpaolo, an Italian banking group.

Euronext says its combination with Borsa Italiana would create a key market player in continental European capital markets, where Italy would be the largest revenue contributor to the enlarged Euronext group.

If a deal is reached, CDP Equity and Intesa Sanpaolo would join the existing group of Euronext's long-term reference shareholders.

Borsa Italiana would maintain its current functions, structure and relationships



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within the Italian ecosystem and preserve its Italian identity and strengths, Euronext confirms, while the exchange's Italian CEO would join the managing board of Euronext.

Key businesses and central functions of the new group would be based in Milan and Rome. In particular, MTS, which operates interdealer, dealer-to-client and repo markets, would become the group's European Center of Excellence for fixed income trading.

Cassa di Compensazione e Garanzia would be the clearinghouse within the combined entity and would become a key pillar of the enlarged Euronext's post-trade strategy.

In addition, Monte Titoli the Italian central securities depository (CSD), offering issuance, settlement and custody services would become the largest CSD within the Euronext group, becoming a key contributor to Euronext's CSDs ambition.

To secure rights to exclusive talks with LSEG for the Italian exchange, Euronext and its partners had to ward off counter-offers by others including Deutsche Boerse.

A spokesperson for the German exchange tells SLT: "Deutsche Boerse's offer focused on strategic synergies and a high degree of autonomy for the Italian stock exchange, rather than the involvement of Italian partners on Deutsche Boerse Group level."

The bid for Borsa Italiana comes as part of Euronext's ambitious growth strategy to form a community of European exchanges and financial infrastructures under its roof, which also led to the acquisition of VP Securities, the Danish central securities depository, earlier this year.

Euronext was able to ink a deal for the Dublin stock exchange in 2018 and attempted to also acquire Spain's Bolsas y Mercados Espanoles a year later but lost out to SIX. However, as a G7 exchange Borsa Italiana represents the biggest prize for Euronext in recent years and a vital piece of the puzzle for Euronext's plans for the future.

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EC backs CCP equivalence post Brexit

The European Commission is giving firms 18 months to reduce their exposure to UK clearing houses to smooth the Brexit divorce process.

The EU financial system's heavy dependence on UK-based central counterparties could cause complications as the UK is due to leave the single market on 1 January 2021.

The temporary equivalence decision aims to protect financial stability in the EU without undermining market liquidity.

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Firms are unprepared for UMR, survey reveals

A survey of 300 asset managers and asset allocators in 16 countries found that 81 percent are not prepared to comply with all facets of the Uncleared Margin Rules (UMR) — the final two phases of which are due in September 2021 and 2022.

The survey, conducted by State Street via Oxford Economics in June, found that the vast majority of buy side firms are finding the process a "steep learning curve".

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LCH clears first Israeli shekel interest rate swaps

LCH has cleared the first Israeli shekel-denominated interest rate swaps. Tel Aviv-based Bank Leumi and Citi were among the first parties to clear a derivatives trade denominated in Israeli shekel. Citi is the executor for the launch of shekel clearing at LCH.

J.P. Morgan, Goldman Sachs and HSBC are also signed up to act as clearing brokers to support Israeli shekel swaps.

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EU/UK derivatives venues must have equivalency post Brexit

It is "critical" that the EU and the UK recognise the equivalence of each other's derivatives trading venues after the Brexit transition period ends on 31 December, says the International Swaps and Derivatives Association.

Failure to reach such an agreement would mean there "will be significant issues" for counterparties subject to the derivatives trading obligation and regulations which will "likely to exacerbate the fragmentation of liquidity," the association says.

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ECB allows temporary relief in banks leverage ratio

The European Central Bank is set to allow banks to exclude some central bank exposures from their leverage ratios in response to "exceptional circumstances", namely COVID-19.

The relief measures will remain in effect until 27 June 2021.

Based on end-March data, the exclusion would raise the aggregate leverage ratio of 5.36 percent by about 0.3 percentage points

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ISLA joins ISSA in preparation for post-Brexit world

ISLA has partnered with the International Securities Services Association to strengten its European contact base ahead of the conclusion of Brexit.

The UK's transition period ends on 31 December and ISLA, aims to ensure it is "not viewed simply as a UK-based trade association, but an important voice across the entire region," says Jamila Jeffcoate, ISLA's head of finance and administration and chief of staff.

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Seb Malik
Head of financial regulation
Market FinReg

Five predictions on future growth

Avid Malik's-memo readers, it is with a heavy heart I must announce that this shall be my final piece. It has always been my intention to provide a novel angle, or cover developments that are not being provided adequate coverage and I hope my articles have delivered.

As I sign off I wish to step aside from the daily news and take a broader view of the market and share the principle changes that shall occur in the next decade or so. I commend to readers my prep school's motto "non progredi est regredi" – not to progress is to regress. CEOs and senior management must ensure strategic business opportunities are not passed over under the thicket of the tactical 'business-as-usual' projects.

The abilities for expansion are huge and will result from the following five points:

Demographic sea-change. Africa and Asia's populations are growing at a rate never witnessed before in history – in contrast to a decline in Europe's population. Italy and Poland's populations, for example, are set to experience heavy population decline. Already towns and villages in rural Italy are proverbial ghost towns. The European Union is so alarmed that it is now formulating an official policy response. Put at its simplest: Europe's role will be much diminished by 2050; with Africa and Asia's much enhanced. Financial services, from simple payment systems to capital markets will explode. We recently learned of industry veteran Roy Zimmerhansl advising the Nigerian Stock Exchange. Demand for Shariah finance will surge.

Crypto asset regulation is imminent. Draft legislation from the EU has been leaked so the market has a decent idea of what is set to come. Distributed ledger technology, more generally, will arrive – eventually. The ability to digitally establish immutable transactions or ownership and exchange of title will revolutionise finance. Related smart contracts are set to transform contract creation and execution. The legal issues have been identified and ironed out under known common law principles.

Digitisation of master agreements led by International Swaps and Derivatives Association is occurring leading to faster and more standardised contract clauses. The International Securities Lending Association and other trade bodies are, or shortly will, follow. Caution must be exercised to prevent over-reliance on automation.

Environmental, social and governance. I am a believer, but sadly not convinced it will lead to any meaningful change in behaviour. Developing markets with an insatiable appetite for energy will not prioritise the environment during the early industrialisation/high-growth phases. The unfortunate, inescapable realpolitik of millions of citizens clamouring for electricity will trump environment considerations.

Pakistan – as an example – is set to fire up highly-polluting coal production in its Thar region despite Prime Minister Imran Khan's genuine views on the environment. Short of huge financial incentives funded by the developed world, it is difficult to see what could prevent the developing world from using cheap fossil fuels. This thesis would imply climate change will be a devastating inevitability. The world has witnessed mega conferences starting from the 1992 Rio Earth Summit, but little concrete actions. On governance, we learnt recently how – yet again – some of the largest international banks have allegedly been up to their neck in money-laundering, with $2 trillion of suspect flows. These are the very banks that fund and extol the values of good governance.

Every forward-looking growth-targeting company should recruit a head of international business development lead by an energetic individual who pours through local trends and regulations to spot opportunities. The role should sit on the board and be considered senior management.

Brexit. I bitterly opposed Brexit. But it is done. UK firms must now seek to exploit opportunities this will throw up and focus on tapping into the huge growth markets of Africa and Asia. A dedicated 10-person start up payment systems operator running out of a back-lane office could be the next unicorn. The UK's investment culture is overly conservative. Investors prefer established, proven cash flows before being interested. A five-person team with pedigree, dedication and a proof-of-concept will struggle in the UK, in a manner that they might not in the US. This requires a change in culture and a step away from seeking to de-risk everything. A sensible risk-taking culture is what fuels entrepreneurship and it is this that will drive future success.

I wish to thank the great team at Securities Lending Times for their encouragement. But most of all I wish to thank you – the readers – without whom this memo would not have been possible. I hope to stay in touch with you all by connecting on LinkedIn.

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Building a strategy

around transparency, control, and optimisation

Marney McCabe and Tom Poppey, who are six months into their roles as co-leaders of the securities lending practice at BBH, discuss a wide range of topics such as assuming responsibility for a business during a global pandemic, how they are engaging with clients to meet their business goals, and their outlook for the lending industry

What can you tell us about the transitions into your new roles and the impact of COVID-19 on your leadership?

Tom Poppey: We were fortunate to assume leadership of a business that is fundamentally strong with clear differentiation and a great team across the globe. Furthermore, we have worked together for over 12 years both in the securities lending business and at BBH. This enabled a smooth transition given our significant knowledge of our product, clients, and strategic direction of the business.

Unexpectedly, our first order of business was to facilitate the global team's transition to remote working without interruption to our clients and borrowers. We were really pleased how quickly this was achieved while in the midst of significant market volatility.

Marney McCabe: COVID-19 has forced us to be increasingly creative in how we engage with our teams. We have increased the frequency of check-in, or 'pulse' meetings, to promote clear communication. As a silver lining, remote working has enabled us to get our global colleagues together around the virtual table more often.

What is your business strategy and how has it changed in the current environment?

McCabe: We have enjoyed a very clear business strategy since the inception of our programme in 1999. We aim to generate superior risk-adjusted securities lending returns for a limited number of sophisticated asset managers and institutional investors. We seek to achieve this through a highly-customised lending experience delivered through our service and technology.

The business strategy is governed by a desire to provide clients what we refer to as "TCO" – transparency, control, and optimisation. While transparency has long been a feature of the lending industry, the emergence of 'big data' is providing an increasing opportunity to elevate what we can provide to clients. As the party involved in the buy and sell decisions for securities, asset managers require a high degree of control over how their lending programme is structured, examples of which include minimum fee thresholds, environmental, social and governance (ESG) compliance needs, and specific collateral preferences, to name a few. Our clients seek optimised, not necessarily maximised, lending returns in accordance with their risk and operational preferences. Ultimately, our ability to deliver TCO is enabled by the underlying technology supporting the business.

Poppey: Securities lending is one of the last bilaterally traded products in the marketplace. As the industry moves to more automated platforms, our strategy is predicated on our trading prowess. We are investing to translate all the distinctive components of securities lending — such as our approach to fee negotiations, collateral flexibility, and importantly, specific lender and borrower requirements – into modern and intuitive technologies.

Can you talk more about your specialisation in partnering with asset managers?

McCabe: Our programme, by design, is principally focused on asset managers. What this means is that we have developed an extreme focus on the considerations and preferences of how asset managers engage in securities lending. What we find is that our asset management clients are not looking to bear unnecessary risk in search of every last fraction of a basis point and prefer a more conservative collateral set. Their goal is to generate incremental risk-adjusted returns which can help improve the overall performance for their investors.

Additionally, we find that our clients view BBH as an extension of their organisation regarding all matters securities lending. Our specialisation influences our digital products, trading practices, and regulatory expertise that is not distracted by multiple lender types.

BBH is selected as lending agent on merit, resulting in our business being a broad mix of custody and non-custody clients. While we happily partner with our custody clients to help elevate their performance, we equally

work with clients and multiple custodians for over half of our business. We are able to do so through a flexible operating platform and team that appreciates the distinctive processing needs of different custodians.

Are there ways that technology is already changing how you interface with clients and borrowers?

Poppey: We work to make sure we meet our clients where they want to be in terms of technology. Whether it is accessing data through online portals, receiving data through application programming interfaces, or more traditional reporting, our primary objective remains surfacing the information that is most pertinent to our clients.

Marney mentioned the importance of being nimble given the dynamic nature of the securities lending business. The industry is moving toward higher levels of automated trade execution. In addition, with the increase of lendable supply, we engage with borrowers to optimise distribution channels without sacrificing performance. Our objective is to achieve incremental gains in automation by incorporating the proprietary trading practices that we have developed over time into modern and flexible technologies.

Finally, interest around emerging technology, such as artificial intelligence or machine learning models, continues to rise. While we do see this as an opportunity, we are being thoughtful around its potential benefit to the business, rather than entering the space simply to gather a headline.

What are your thoughts on asset managers' focus on ESG investing and how that impacts the industry and your product strategy?

Poppey: ESG is definitely catching the attention of many in our industry and there is a clear nexus with securities lending because when shares are on loan, you lose your right to vote proxy for those shares. Depending on the client's collateral preferences, there also may be a need to screen securities for ESG criteria. We have, and continue to, extend our capabilities that allow our clients to meet both objectives of adherence to ESG principles and participation in securities lending. We work closely with our clients to understand their ESG models and to create a securities lending programme leveraging data and technology that can coexist with their models. It's highly customised and often automated, enabling their shareholders to continue benefitting from securities lending, recall securities when needed to vote proxy, and ultimately deliver on an investment strategy focused on sustainability and social governance.

You have more than three decades of experience in securities lending between you. What are some of the biggest trends that could impact the industry moving forward?

McCabe: Securities lending is a dynamic industry, despite its maturity and reach. Lending supply is at a historic high, but borrower demand has been growing at a slower pace as the industry is impacted by both cyclical and secular change. It is more important than ever that BBH, as the lending agent, is making appropriate investments in light of this imbalance. There is little doubt that supply will continue to grow as institutional investors become increasingly familiar with the practice and funds search for additional returns in a hyper-competitive environment. The challenge for agent lenders will be to pursue strategies that maximise distribution to capture as much demand as possible.

Poppey: The agenda for the industry has largely been dictated by global regulators over the past 10 years, but that is starting to change. This provides an opportunity for market participants to focus their energies on revenue producing activities while achieving greater scale and efficiency through emerging technology.

When taking a step back to view our industry objectives, it's easy to see the fundamental trends that point towards growth. Exchange-traded funds and cross-border funds, both of which historically have widely accepted lending as a strategic imperative, are growing rapidly. The ultimate consumers of borrowed securities, alternative and hedge funds, continue to enjoy positive growth as investors search for return. And securities lending and financing enjoys great scale as typified in the global loan balance, which provides fertile ground for specialisation. It's a bright future.

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What's next on the horizon for trade repositories?

Another European TR is set to close its doors in October amid rising costs and business hurdles in the form of Brexit and regulatory complications. What will the future hold for this community of essential market infrastructures?

Natalie Turner Reports

The revelation that CME Group will close its European and Australian trade repositories (TR), along with its Abide regulatory reporting suite, earlier this year laid bare the fragility of the essential market infrastructures that act as the curators of the market's ever-increasing archive of trade data.

Moreover, the fact that the decision to wind-down the services came after CME failed to offload the businesses despite a months-long sales pitch highlights the challenges that hosting such services brings in an ultra-competitive marketplace where everyone must do more with less.

CME will retain its United States Swap Data Repository and its Canadian Trade Repository services but that will be of little comfort to its more than 1,000 clients that are now seeking a new home for their EU trade data.

"Historically CME has been the most competitive on pricing, but its departure strongly suggests that the lower price was unsustainable," explains Ronen Kertis, founder and CEO of Cappitech, a British regtech firm.

CME is not alone deciding the TR life wasn't to its liking. The market had equally proved too competitive for Bloomberg, which registered a TR with the European Securities and Markets Authority (ESMA) in 2017 but was forced to shutter the business two years later.

The news of CME's imminent departure was a shock for much of the market and Kertis predicts that it will likely cause prices for reporting services to increase, which may have a knock-on effect on TRs.

If price becomes the key factor, service could be negatively impacted as firms reduce investment to meet lower cost demands, as well as Brexit

complicating the process by requiring the formation of new entities on either side of the English Channel.

Filling the void

When the news of the TR closure broke in May, clients were left scrambling to find a new TR, despite CME Group assuring its clients and regulators that a smooth transition and an orderly wind-down of the impacted services would be put in place.

"When the announcement came there was a lot of concern, particularly from some of the bigger firms using CME's regulatory reporting service that wanted to make sure they were supported post closure and could transfer in time with minimal disruption shut down," says Michael Leach, managing director of global sales and business development at UnaVista.

Leach explains that TRs that made an investment over the years and are able to provide structure, resources and the right controls in place, such as UnaVista, will be able to provide that ongoing support and comfort for clients. "We have been in a good position where we can migrate customers over from CME and are able to facilitate a simple process for them using our automated CME format converter. We have seen a large number of customers coming to UnaVista to switch," he notes.

KDPW, the Polish TR and central securities depository, responded to the occasion by developing a special offer for CME clients so they could easily switch to its TR. "We made sure to offer attractive prices," says its CEO Maciej Trybuchowski.

Likewise, REGIS-TR is also using the opportunity to expand and build out its UK TR hub, which is also essential for its British clients in the context of Brexit.

But, even here, TRs face challenges. REGIS-TR head of business development, Nick Bruce says CME clients need to report to another TR by effectively the first week of November when the TRs close their doors. "There's a huge number of CME clients that require their business to be taken care of," he explains, and only a limited number of weekends when REGIS-TR can port them over.

The remaining TRs are welcoming CME's former clients with open arms but industry experts fear that a bolstered roster of customers may not be enough to shield the community from the challenges ahead, including Brexit and an update to the European Market Infrastructure Regulation, known as EMIR Refit.

A tight Refit

As with all regulatory implementations, the benefit of hindsight brings lessons which can be learnt for future mandates. DTCC's managing director of derivatives services, Val Wotton, says that is especially true for the Securities Financing Transaction Regulation (SFTR) and EMIR. "Some challenges did occur regarding the timely distribution of the ISO schema and guidelines" for SFTR, he explains, and lessons can be learned from that and applied to the upcoming EMIR Refit.

For example, if ESMA adopts the ISO 20022 standard for the EMIR Refit programme, as it has for SFTR, "we would expect similar tools to be in high demand for that mandate, a trend that would grow as further Refits to trade reporting regulations come into effect in the US and Asia," Wotton adds.

Firms will need to seek a solution that both reduces costs and manages their trade reporting data needs across jurisdictions.

The purpose of Refit is to address disproportionate compliance costs, transparency issues and insufficient access to clearing for certain counterparties. Its aim is to simplify the rules and reduce regulatory and administrative burdens where possible, especially for non-financial counterparts (NFCs), without compromising the regulatory goal of EMIR.

As of 18 June, responsibility for reporting OTC derivatives trades under EMIR was handed to FCs on behalf of their NFCs that are deemed NFC-under regulation's new designations.

The NFC needs to confirm whether it intends to self-report to prevent the risk of double reporting, or a failure to report by either party. Flaws in the data transfer methods and general shortcomings in the average level of communication between NFCs and FCs means that this system is expected to lead to issues with duplicated reporting.

REGIS-TR's Bruce says this issue creates a "perfect storm" and will bring an unprecedented amount of activity and movement to a market that isn't built to support that number of clients or the volume of trades.

The big break

The next big question on the agenda is how will Brexit throw up barriers and complicate reporting processes once the transition period expires on 31 December?

From 2021, UK entities will no longer be legally obligated to report to ESMA, although they will still be subject to its rules for any EU-related business.

Bruce explains that "the reality is from a regulatory reporting perspective it's actually very clear": if you are a TR reporting for a UK entity, the TR has to be a UK registered entity.

"We were ready for Brexit last year, but the further delays has afforded us more time to prepare," Bruce adds. REGIS-TR UK recently appointed John Kernan as CEO and to the board of directors as part of its preparations.

DTCC has also been in conversations with clients, Wotton explains: "We understand that their IT/testing resources are aligned in preparation for the end of the UK/EU transition period on 31 December, and as expected, the industry has factored in significant resources to ensure a smooth transition on that date."

Despite the preparations, the split will not be free of downsides. KDPW's Trybuchowski predicts that Brexit will inflate reporting costs for clients who operate on both sides of the border. To defang the challenge, most UK trade repositories are setting up operations in EU27, and vice versa.

"KDPW will be reporting clients' trades in the UK in partnership with a UK TR. We have completed our negotiations and will soon be signing a contract with a selected partner. Clients of our TR who trade both in EU27 and UK will then be in a position to report trade on both markets within a single system," Trybuchowski discloses.

TRs might be ready for Brexit and the issues with EMIR Refit might be clear, but in an industry where margins are razor thin and reporting costs are predicted to inflate, participants must be both innovative and willing to cooperate in order to reverse the trend of market shrinkage.

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Point Nine: driving innovation

Theo Mallas, marketing manager, and Alan Dzhanaev, client success manager, at Point Nine discuss the service providers successes and what's next on the agenda after SFTR go live

Tell us about your company. What's your main focus?

Point Nine is an industry leader in post-trade processing and regulatory reporting. Founded in 2002 as Point Nine Financial Technology, we work with both buy-side and sell-side firms to help them address the ever-expanding challenges of post-trade processing and regulatory reporting.

In 2019, Mitsubishi UFJ Trust and Banking Corporation (MUFG) acquired Point Nine to satisfy it's long-term goal of becoming a global leader and enhance the Trust Bank's services and presence. Resulting from the acquisition, Point Nine was spun off to Point Nine Data Trust, the end-to-end multi-regime reporting solution. Since then, Point Nine has offered technology and managed services to more than 140 customers across the globe including hedge funds, asset managers, brokers, and banks.

Point Nine is a team of industry experts that specialises in regulatory reporting, equipped with proprietary cloud-based technology designed to help customers fulfill their regulatory reporting requirements, streamline their processes for storing, processing and submitting data from various sources. The flexible architecture of our product includes multifunctional portal features that have the ability to report customer activities in real time.

What differentiates you from your competitors?

What makes Point Nine stand out is our ability to access data from various systems, including customers' in-house solutions. Our architecture has an automated way of fetching, receiving or submitting enriched data while helping the increased accuracy testing, perform advanced regulatory reconciliations, testing reference data and having a proper control framework.

Aside from the quality of our service and product, Point Nine aims to become a driving force of market change and reform. Our team is our strength. We are proud of our team's industry knowledge and are committed to keeping up with the latest changes in regulations. We are smart, fun, and driven, however, we also take our community involvement and responsibility seriously.

We are dedicated to giving back to the community, including other businesses, supporting local charities, and helping people reach their utmost potential while collectively securing a sustainable future. Cultivating potential drives how we lead and empower our team, how we build our product and services for clients, and how we engage with the community at large which sets us apart from the competitive landscape.

SFTR went live in July, how did it go?

As many other firms, we were expecting a culmination of several years of technical preparation to go live in April with phase one. After the plan initiated by the European Securities and Markets Authority (ESMA) to mitigate the impact of COVID-19 on the EU financial markets, as well as a three-month postponement of the reporting obligations related to securities financing transactions (SFTs), we gave our team extra time to test phase one and two at the same time.

Furthermore, we had an opportunity to scrutinise sample reports and overview of repo lifecycle events from the International Capital Market Association's (ICMA) first version in February of recommendations for reporting under Securities Financing Transactions Regulation (SFTR).

What lessons did you learn from the first and second phase of SFTR?

As both phases went live on the same day it had a little effect on the overall implementation of the highly complex SFTR reporting regime. The main

lesson we learned is that working on the quality of the report is one of the most difficult tasks for everyone who has been affected by this regulation. Tracking SFTR questions and answers or any additional guidance expected from ESMA plus recommendations from ICMA and other involved parties like working groups and so on. Our team of professionals are looking into these updates including direct work with local NCA on the expected quality.

Although we have seen a high level of transactions validated by trade repositories (TRs) on SFTR on the first days of reporting, this is mostly based on the good sample of forming best market practices by the parties responsible to report and their cooperations with different types of regulatory bodies.

> *"Working on operational and legal unification in the securities lending market is an essential part of the successful SFTR implementation"*

What challenges did you face and overcome?

One of the main obstacles of the securities lending market is that it is not standardised as a derivatives market at the European Markets Infrastructure Regulation (EMIR) implementation time. From what we have seen so far the operating models and expertise in organisations are significantly varied..

The difference of processing data in operational flows is causing a significant mismatching process at the TR levels, so working on operational and legal unification in the securities lending market is an essential part of the successful SFTR implementation.

Technical issues of consuming and publishing xml format reports are linked with the additional resources required to create a reporting flow. We are also facing some of the report validation obstacles in collateral positive and negative values, and firms interpretations of the life-cycle events. That said, Point Nine as a data vendor is not having difficulties over getting static data for the report such as a legal entity identifier or bond reference.

Buy-side firms are due to go live next month, for a long time we have heard they are not ready. What is the state of play now?

The buy-side firms are less likely to have the same success in validation rate at the TR level on the phase one and phase two implementation due to the lack of the availability of the required resources and systems.

We believe that sophistication of the static data or parts like reconciliations of the collateral would be a huge task for smaller firms to automate in their reports or to agree with static data vendors to provide on the daily basis.

Originally there was talk of larger buy side firms going it alone and by-passing the regulatory firms and going straight to the TRs. Has there been an influx of buy side firms opting for your solution last minute?

Having learned from the previously implemented frameworks we expect to see some clients with direct access to the TR will require enrichments help on our side.

Our company customers vary by readiness of tier systems to provide information necessarily to fulfill reporting obligations and some of them opting out for file conversions and unique transaction identifier distribution services while others are getting a full package of the services we provide.

Do you foresee further reporting or risk-related regulations coming as a consequence of what regulators find while analysing SFTR data?

We presume that the regulator will be pushing towards the quality of the report provided by reporting parties. Control frameworks within the organisations would need to work closely with testing errors and documenting trading scenarios they have using best market practices.

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AMX breathes new life into securities lending

Drew Nicol reports

The Asset Management Exchange's head of product Kerrie Mitchener-Nissen reveals the details of the platform's new securities lending programme

What does the Asset Management Exchange offer?

The Asset Management Exchange (AMX) launched in February 2017 as an institutional platform for asset managers, institutional investors and their intermediaries. Our aim is to standardise, centralise and streamline the process of investing so it works better for everyone.

For asset managers, we are essentially looking to simplify their lives. We want to take all non-investment activities off their hands and allow them to do what they do best: managing portfolios and generating returns. Among other things, that means we take over many of the time-consuming activities such as managing relationships with third-party service providers, regulators and auditors.

For institutional investors, we provide more transparency and ease of access to funds, and in particular we are concerned that the process has become very expensive for them. A lot of the expense comes from inefficiencies and frictions in the system, such as performing due diligence over many different investment managers, and managing reporting that arrives in many different formats. AMX brings all their funds onto a single platform, giving investors greater purchasing power, reducing duplication of costs, and allowing investors to manage their portfolio on one platform.

We offer products across all asset classes and recently we surpassed $20 billion in assets on the platform.

You left J.P. Morgan to take on your current role in January and oversee the launch ofAMX's securities lending programme. Where has your career taken you to reach this point?

I was with J.P. Morgan for just over 13 years and I was at Barclays Global Investors for almost eight years before that. During that entire period, I was in product roles. So, for AMX I've come on board to pull together all the product functions in one place, from product strategy and product specialist functions, to product management and delivery.

Adding a securities lending programme was always seen as a way to make the most efficient use of the assets on the platform and generate additional income for our investors. The concept of the programme was already underway when I joined.

Who manages AMX's securities lending business?

The bulk of the work occurs within the operations team in Ireland, alongside the fund administrator and the lending agents. We have an excellent team of highly-experienced professionals based in Ireland. They are responsible for managing the day-to-day activities of the fund and the lending programme, with oversight by the management company AMX Ireland.

Was the creation of this service driven by existing clients on the platform?

It is not about generating revenue for ourselves, but for the investors. In the market, securities lending is widely used for generating additional returns for clients, so we felt it was important to get that up and running on our product suite so our clients could benefit.

It felt more like an important evolution in the services we offer to our clients as something that is becoming quite standard in the market.

In terms of the revenue split, AMX is not taking anything off the top for offering this service. Do you purely see yourselves as facilitators?

Exactly. The market, in general, provides a 70-30 percent revenue split between the fund and the agent lender. We are pushing more in favour of the fund and the investors, so we offer 80-20 percent split. Importantly, we are not taking a fee for this; it is income due to the clients for their fund.

In loaning out those securities, we feel it is right that the fund investors benefit from the fees earned on that. The remaining 20 percent is then the fee that the agent lender takes for performing their function. We did not feel it was appropriate for us to take a fee as well.

Do you have a timeline for phasing the platform out to the funds?

I would envisage that over the next six months we will introduce the securities lending programme to as many funds as is appropriate.

As a young and agile firm, our technology is cloud-based, which is why we were able to move ourselves to a work-from-home model very quickly, and were able to continue with our plans to introduce our securities lending programme.

From that point of view, it has felt like we have been busy throughout this time on the product front. We have weathered the difficult environment well and we were able to pick-up and get rolling very quickly.

The entire asset management industry has adapted remarkably well as it figures out new ways of working remotely.

How has the uptake been?

Given that we introduced the platform right at the start of the summer, the market for lending has been a little soft which was not too surprising. I anticipate it will open up post-summer.

That said, client feedback on the programme has been strong, and as we roll it out more clients have been enquiring about our capabilities. We will add further products to the programme in a phased approach.

Have there been any issues with companies viewing the lending programme as contradictory to their ESG principles?

Our aim is to act as a facilitator for our clients' environmental, social and governance (ESG) requirements. An increasing number of investors are incorporating ESG investment and stewardship philosophies into their lending practices to ensure that these align.

Where that includes specific requirements in respect of the use of or extent of lending in their portfolio, we are ready and able to support and facilitate that. We want to ensure we have the flexibility for clients to match their ESG policies in whichever way they need us to.

> *"The market, in general, provides a 70-30 percent revenue split between the fund and the agent lender. We are pushing more in favour of the fund and the investors, so we offer 80-20 percent split."*

You have made it clear that you are only interested in working with the highest calibre of agent lenders. What's your criteria for a bank you'll work with.

We have two agent lenders available to us on the platform. For us, what is most important is the quality of the agent; AMX will only use high-quality agent lenders with a strong credit rating, and we put that entity through our rigorous due diligence process. We are not actively seeking another agent lender, but we are always on the look-out for strong partners as we grow the platform.

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Safe as houses – or offices

David Lewis
FIS Astec Analytics

FIS Astec Analytics' David Lewis addressing risk as a central theme of the year and how REITs are among the institutions bearing the brunt of the COVID-19 market restructuring

Everything carries risks. Every action, inaction, decision or indecision, divestment or investment. The trick is minimising those risks to an acceptable level, with the definition of 'acceptable' being a wholly personal and almost infinitely variable value. 2020 has been all about risk. Risk of infection, risk of unemployment, risk of loss and failure, both personal and professional. Managing those risks has become the responsibility of every person and every government, with a very wide range of interpretation and application to the task at hand. It is, at least in part, the subject of every conversation, whether over the internet or in person but socially distanced. For the British people, the subject of risk management has even pushed Brexit and the weather to minor mentions in passing.

For the financial industry, the response to this new risk, previously a hypothetical scenario on a disaster recovery exercise, has been as varied as the divisions and types of activity that can be found in any major financial centre. The 'square mile' and Canary Wharf in London, along with many similar financial centres in most developed countries, resemble a quiet Sunday every day in terms of the footfall and presence of office workers, but this is just the tip of the proverbial (melting) iceberg. It is not just where we are all working now that is different, but how and within different parameters.

Thirty years ago, the S&P 500 stood at almost exactly 10 percent of the level it closed at last week (316 points compared with 3,319). There was, of course, the financial crisis driving a train through the global economy in 2007/8/9 when the index fell to just under 700 points, but until last February/March, when it fell from around 3,370 to 2,230, it has been on an almost inexorable rise ever since, peaking at 3,580 earlier this month. This is just one index and share prices do not necessarily relate to prosperity for all, but there are those that think the end of one of the longest bull-run periods may now be in sight.

When the balance of risk starts to tip beyond what investors consider acceptable, they make changes to their investment profile to adjust their perceived exposure. The last quarter saw an influx of money into US high-yield and core fixed income assets as investors sought to cash-in equity gains and find safe havens of reliable yields. High-yield bonds saw the greatest net influx at around $58 billion, suggesting some levels of risk appetite remained, but the move away from equities was demonstrable. US real estate investment trusts (REITs) also saw an uptick in investment money of around $1.2 billion in the second quarter, but such a statistic should not be taken in isolation; the prior quarter saw five times that sum withdrawn from REITs. There are significant questions around corporate real estate at present and the longer those that can work from home continue to do so, arguably the less likely it is that they will ever return in the same way.

Large and small companies all over the world will be looking long and hard at their corporate real estate portfolios and the expense of large buildings with prestigious addresses. With almost every industry in the world looking hard at their bottom lines, expenses such as empty or under occupied office blocks are bound to attract attention.

REITs have seen significant borrowing activity as short sellers recognized the increasing rate at which risks were piling up for such property portfolios. Pressure on corporate real estate, particularly regarding bricks and mortar shopping centres and the like, has been on the rise for some time as online retailers grab market share and make footfall a virtual activity and not a physical one. However, in the same way that the COVID-19 pandemic has accelerated online shopping, it is now accelerating what had already been a general trend toward more flexible and remote working. As a result, the REIT markets have seen additional pressure come into rapid focus as corporations consider downsizing their physical locations.

Looking back at September 2019, one well known financial analysis company highlighted the five best REITs for investment opportunity,

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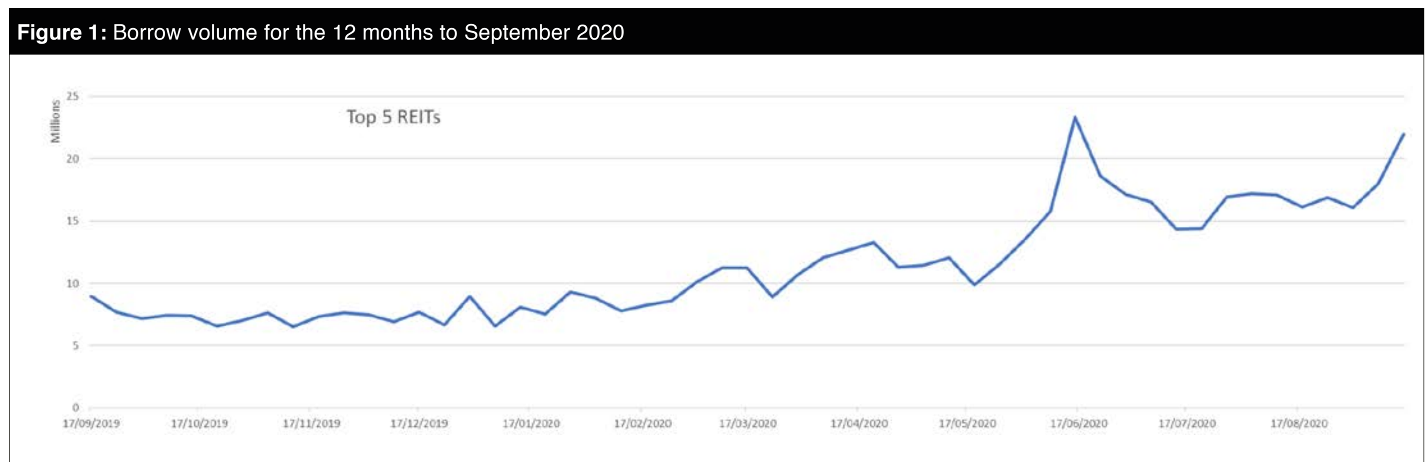
Figure 1: Borrow volume for the 12 months to September 2020



arguing for the REIT as a good investment based on low tenant turnover, excellent capital growth and strong dividend income (dividend yield being the primary measure). Figure 1 shows how the borrowing volumes in shares for these five US REITs, which together gave a broad geographic exposure to office buildings right across the US. The five companies were Boston Properties (BXP), SL Green Realty (SLG), Hudson Pacific Properties (HPP), Highwoods Properties (HIW) and Mack-Cali Realty (CLI).

As Figure 1 shows, borrowing volume increased by 146 percent over the past 12 months, peaking at the start of the second quarter before falling back somewhat. The fears of a second wave and the realisation that a short-term mandate to work from home could become a long-term strategic change for many organisations started to ring more alarm bells. The prospect of falling occupancy rates for REITs, which are typically highly geared in terms of debt burden, drove renewed interest over the past month.

Over the same 12-month period, the share prices of these five companies have fallen an average of 35 percent wiping some $14.9 billion from their total market capital.

The US is not alone of course. This is a global pandemic. In the UK, there have been many high-profile casualties in the hospitality industry for example, such as Pizza Express (closing 73 restaurants and shedding 1,100 staff) and Pret A Manger (30 stores and almost 3,000 job losses). Between these two, there are more than 100 newly empty properties on the retail market at a time few would be considering opening new restaurants. With a potential second wave, several countries are considering more focussed lockdown restrictions: in the UK, the focus is moving towards the drinks manufacturers as new lock-down rules are being considered. Socialising in pub environments has been cited by Dr. Anthony Fauci, the much-quoted the director of the US National Institute of Allergy and Infectious Diseases, as being one of the riskiest activities you can undertake with regards to the risk of COVID-19 infection. Such views add further weight to the expectation that such social activities will be curbed to bring down infection rates.

Few could have predicted the impact of COVID-19 on so many parts of the economy, or just how fast such a pandemic could change everything. But as the data shows, significant positive sentiment towards an investment class can change rapidly, and the value of knowing where the next wave of potential economic loss could be, is writ large in share prices.

David Lewis
Senior vice president
FIS, Astec Analytics

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Comings and goings at Marsco, DTCC, Eurex and more

The Global Association of Central Counterparties (CCP12) is set to see Eurex Clearing's Teo Floor take over as CEO from Marcus Zickwolff, effective from 1 October.

CCP12 is a global association of 37 members that operate more than 60 individual CCPs.

Floor, based in Frankfurt, takes on the top job following a role as special advisor to the CEO of Eurex Clearing, the Deutsche Boerse-owned CCP, where he has been since 2008.

Previously, he also served as a vice-chair for CCP12's executive committee for Europe, the Middle East and Africa as well as a co-chair and treasurer in the board of the European Association of CCP Clearing Houses.

CCP12 was registered as an association in January 2017 and has an office in Shanghai.

Zickwolff was appointed as its first CEO in April 2017 but will soon step down to pursue a new role as founder and managing director of ZIRE Consulting Services.

"I am delighted that Teo is joining CCP12," says Kevin McClear, president of ICE Clear US and chairman of CCP12. "With him we can ensure that the excellent work of Marcus will continue as Teo is also an expert in CCP matters and is well-known by regulators and the industry."

Of his new role, Floor says: "It is a great pleasure and honour to begin work for the global CCP community, and to lead the excellent team Marcus has built up at CCP12.

Marsco launches securities lending programme with new chief

US online brokerage Marsco Investments has brought on Philip Sercia from fellow broker TradeStation to launch and lead its new securities lending business.

Marsco has a 30-year track record as a self-clearing firm with hundreds of thousands of retail clients but until recently it did not have a securities lending programme.

Last year it was acquired by Tiger Brokers, which offers Chinese investors a platform to trade in US stocks, and it was deemed that their combined assets would benefit from the additional revenue a securities lending programme could bring.

Until this point, Tiger Brokers had also not hosted a securities lending business although it did use other clearing firms to lend on its behalf.

The Tiger/Marsco SBL programme was launched in July and Sercia became its inaugural head of securities lending fresh from a role as co-head of securities lending at TradeStation, where he had served for just under a decade.

He began at TradeStation as a director within the securities lending team in 2011 and rose to become a senior director and co-lead the business in May 2015.

During that period, Sercia handled institutional and retail clients and was an active participant in launching its fully paid programme.

Before that, he spent just under five years as part of Citigroup's prime finance team specialising in American depositary receipts.

"I was initially attracted to Tiger/Marsco due to the growth potential, the desire to start something from the ground up as well as seeking an opportunity to grow professionally as well as personally," Sercia tells SLT.

In his new role, Sercia, who is based in New York, reports to Fred Zhang, COO of US Tiger Securities and he is listed at Marsco Investment Corporation and US Tiger Securities.

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“CCPs are a critical component in financial markets and stability, and the ongoing development of best practices and promotion of their services by CCP12 is an asset to their broad ecosystem of private and public stakeholders.”

The Depository Trust and Clearing Corporation (DTCC) has appointed Lisa Hershey as managing director of chief compliance officer, effective 1 January 2021.

Reporting to Ann Shuman, DTCC’s managing director and general counsel, Hersey will be responsible for leading the firm’s compliance function.

Hershey, who joined DTCC in 2009, currently serves as managing director and head of operational risk management, helping to expand and strengthen the firm’s capabilities to identify, assess and manage report and remediate operational risks, working in partnership with the firm’s business and functional leaders.

She will replace Susan DeSantis, the current chief complaint officer, who is set to retire in early 2021.

Commenting on Hersey’s new role, Shuman says: “Lisa Hershey’s expertise and experience will be critical as she oversees a team of professionals as they navigate an ever-growing list of rules and requirements across multiple jurisdictions. We look forward to her continued leadership and contributions to this key DTCC function.”

She adds: “Susan DeSantis brought a deep knowledge of the industry, extensive regulatory contacts and strong professionalism to her leadership roles in compliance. We thank DeSantis for her tireless contributions to DTCC over the years and wish her the very best in her retirement.”

Former-GLMX managing director Phil Buck has resurfaced as COO of Ediphy.

Ediphy, like GLMX, is in the electronic trading space with a current focus on swaps and bonds, though the proposition is different, Buck explains.

Buck joined the firm earlier this month after just over two years growing GLMX’s UK and Europe businesses from its London office.

Before that, he held several senior positions at ION, between 2006 and 2017, including his latest as CEO of ION Repo, focused on securities lending and collateral management. He also served as global head of sales and CEO of ION’s North American business before that.

“I am super excited to be working with such a talented team at Ediphy, Buck tells SLT. “Electronification has been profoundly transformational to many areas of our lives as consumers – and yet so much of the potential has yet to be realised in the financial markets.”

“While repo and securities lending remains very much part of my DNA, I’m looking forward to the opportunity to broaden into other areas,” he adds.

Ediphy was launched in 2017 by Murphy, UBS’ former global co-head of foreign exchange, rates and credit, and Daniel Wild, previously UBS’ head of data analytics, who now serves as Ediphy’s CTO.

It is agnostic as to where the trade happens and, rather than being a specific venue, aims to be a one-stop partner for achieving best execution across a multitude of liquidity sources.

It further promises to apply a combination of trader knowledge and artificial intelligence algorithms along with full transparency on the decision-making.

The platform also makes use of, and offers free access to, price and trade information relevant to the second Markets in Financial Instruments Directive.

Delta Capita has appointed Jerry Ngo as vice chairman for Asia, based in Singapore.

Ngo brings almost 20 years of experience in banking, transaction banking and private equity in the region, having previously served as managing director for Vietnam, Cambodia and Laos at Standard Chartered Bank, as well as wholesale banking head at ANZ Bank Indonesia.

In his new role, Ngo will assume responsibility for identifying and driving opportunities for expansion and growth in Asia, with leadership experience in client relationship management, investment and portfolio management, corporate governance, and private equity.

Joe Channer, CEO of Delta Capita, comments: “Jerry Ngo’s regional expertise and leadership experience will be critical in helping Delta Capita extend its solutions and services across Asia, offering enhanced delivery capabilities to our clients.”

Ngo adds: “I am excited to be joining Delta Capita to help build and enable financial institutions in light of new technologies, regulations and the challenges of an ever-dynamic competitive landscape.”

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