securities lending times

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Let the good times continue

Overall revenues generated by beneficial owners in Asia grew by $90 million last year, putting the 2017 total at $1.1 billion. That 9 percent year-on-year revenue increase was the result of both increasing balances, up 5 percent compared to 2016, and increasing fees, up 5 basis points compared to the previous year. In this year's Asia Handbook, Samuel Pierson of IHS Markit discusses the reasons behind a sixth straight year of revenue growth for Asian equity owners.

Although in recent years, conversation has been dominated by regulation and its operational ripple effects, it seems that the market could be departing the era of regulation and moving into one that it likely to be defined by technology and data. Later, Philip Morgan of Pirum System examines the Asian securities lending market to see why it is increasing looking to adopt technology to assist as a catalyst for evolution.

Also, Dane Fannin of Northern Trust explains why China presents one of the most significant opportunities for the securities lending industry long term, while Japan continues to serve as an important revenue source for clients.

When talking about securities lending in the Asia Pacific the conversation typically starts with Hong Kong, turns to Japan, and ends with Taiwan and South Korea, however, Natalie Floate of BNP Paribas explains why Australia remain an essential and reliable source of income for any securities lending portfolio.

You will also find an insight into Asia's technology needs as David Raccat of Wematch.SecuritiesFinancing reviews the differing technology needs of Asia's developing securities financing markets.

Thank you to all of our partners, whose sponsorship and help has been instrumental in putting this handbook together. If you have any comments or suggestions for future issues, please don't hesitate to drop us a line.

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The winning streak continues

The good times continue for Asian equity owners after a sixth straight year of revenue growth. Samuel Pierson, director of securities finance at IHS Markit, explains

The good times have continued to roll for owners of Asian equities, as the region's total revenues posted their sixth straight year of growth. Overall revenues generated by beneficial owners grew by $90 million, putting the 2017 total at $1.1 billion. That 9 percent year-on-year revenue increase was the result of both increasing balances, up 5 percent compared to 2016, and increasing fees, up 5 basis points compared to 2016.

While that sounds like all good news for beneficial owners, it's worth noting that lendable inventories were up 29 percent for the region. The increased demand was

unable to counter the advance in inventory, with only the three smallest revenue generating countries able to post a year-over-year increase in utilisation. Following two straight years of double digit revenue increases, 2017 fell just short, as the $90 million uptick was only a 9 percent increase compared with 2016. Far and away, the driver of increased revenue in 2017 was Japan, where revenues surged over 40 percent compared with 2016. Taiwan and Australia also posted double digit percentage gains in revenue.

Equity specials, shares with lending fees above 100 basis points, generated 84 percent of the Asia equity revenue last year, which was up from 81 percent in 2016. The revenue generated by those specials surged to $960 million last year, an increase of 12 percent compared with 2016. The increasing specials revenue came as the result of a 13 percent rise in balances. The average special fee was virtually unchanged at 491 basis points. General collateral revenues were down 2 percent in 2017, so the 9 percent overall revenue increase was entirely the result of improving specials revenue.

Japan revenue surges

The major driver of increased regional revenues in 2017 was Japan, where equity lending revenue posted a $146 million increase, wrapping up the year with a massive $457 million in revenue. That strong result is even better than the $100 million revenue increase in 2016. While Japan was already the leading revenue generating market in Asia, its lead has been extended. In 2017, Japan delivered 40 percent of regional revenues, up from 33 percent in 2016.

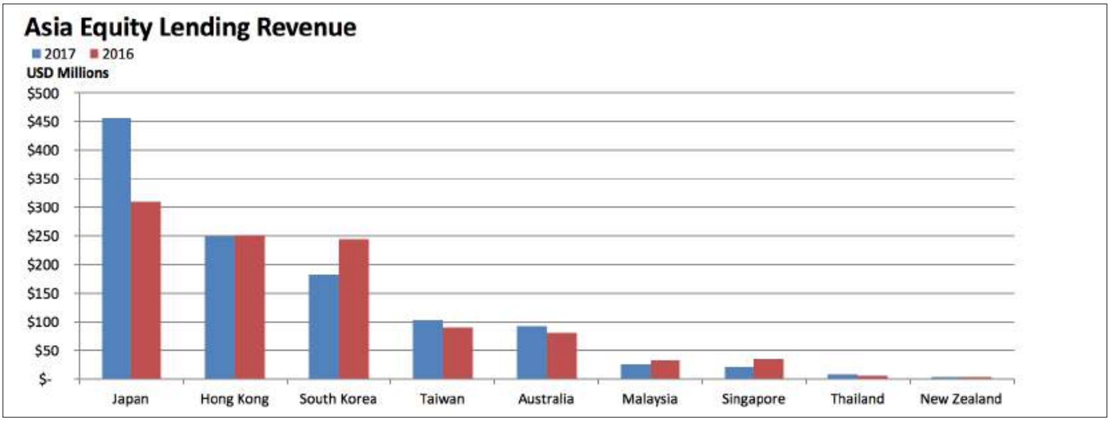
The increase in revenue for Japanese equities was driven by both increasing fees and loan balances. The proportion of Japanese shares which trade over 100 basis points has increased to 19 percent of all shares on loan, up from 15 percent in 2016. The fee commanded by these specials has also increased, as borrowers were charged an average 570 basis points to borrow Japanese specials in 2017—up from the 497 basis points average in 2016.

Sharp Corp was the largest revenue contributor, pulling in $45 million during 2017. That's equal to 10 percent of total revenue for Japanese equities for the year. Cyberdyne was in second place with $24 million, representing a 20 percent increase in revenue for the stock compared with 2016.

Hong Kong holds steady

Hong Kong was the only country in the region to be essentially flat from a revenue perspective, with a decline of 1.3 percent, while all other countries moved up or down by at least 10 percent. The flat revenue does bely some changes under the surface, as a 9 percent increase in balances was offset by a 9 percent decrease in fees.

China Fullshare Holdings was the highest revenue grossing stock in Hong Kong for last year, delivering more than $22 million in revenues. The increased demand and fees came after a well known short seller criticised the firm in April. The second highest revenue grossing stock was BYD Company, which pitted short sellers against legendary investor Warren Buffett. It remains to be seen whether the shorts will be proven correct about the firm's



valuation, however, share owners received $17 million in lending revenue for the stock in 2017.

South Korea fails to match 2016

South Korean equity revenue failed to repeat the stellar performance of 2016, with revenues declining 25 percent year over year. That came entirely as the result of declining specials, as loan balances actually increased slightly. The revenue shortfall was a disappointment following an increase in revenues in 2016, which put South Korea nearly equal to Hong Kong as the second most revenue generating country in Asia.

Similar to last year's increase in revenue, last year's decline is attributable to a single stock, biotech firm Celltrion. Short sellers were not deterred by the share price more than doubling in 2017, with borrow balances also doubling during the year. The revenue decline was caused by consistently falling fees for the stock, a trend which began in mid-2016 and continued uninterrupted during 2017.

Taiwan still on revenue recovery track

Lending revenues for Taiwanese equities came in at just over $100 million for last year, up 15 percent compared with 2016. While it is encouraging to see the revenue continue to pick up, the revenues generated by the market are still below the $130 million tally registered in both 2013 and 2014. The increasing revenue came both as the result of higher balances, up 3 percent year-over-year, and higher fees, up 24 basis points year-over-year.

AU Optronics, the computer display manufacturer, was the most revenue generating stock, pulling in $4.1million during 2017, despite borrow fees declining in the latter half of the year. That haul represents 4 percent of total revenue for Taiwan in 2017.

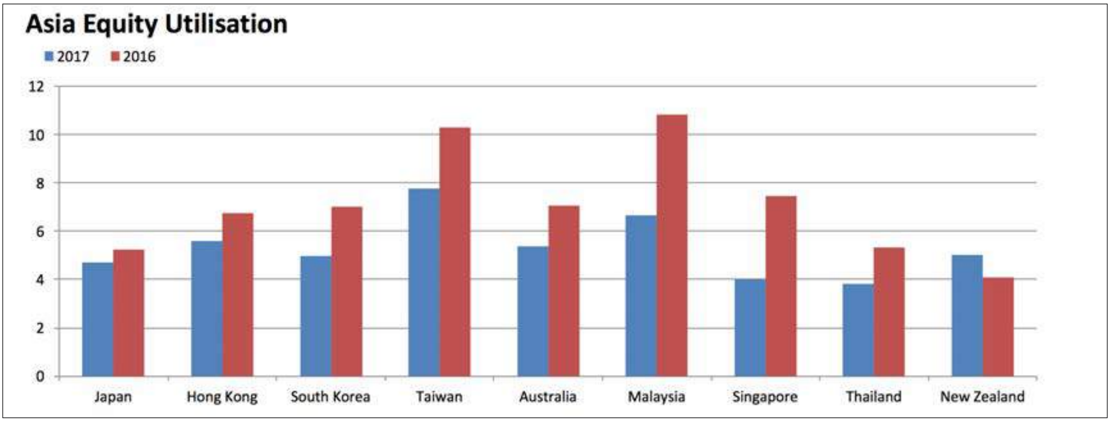
Australia

Australia earns the last slot among the five largest revenue earning markets, after generating $91 million of revenues for beneficial owners. This represents a 13 percent increase from the 2016 total, which was helped by the country's large exposure to the commodities sector.

Smaller markets deliver mixed results

There was a great deal of dispersion in 2017 revenue results for the smaller Asian equity lending markets. Overall, the comparison with 2016 was not positive, but there were some bright spots with Thailand, New Zealand and Indonesia all posting double digit revenue advances.

Elsewhere, the theme was less upbeat, with Singapore, Malaysia and the Philippines all posting double digit declines in revenue compared with 2016. The 37 percent decline in Singapore revenues is also notable in that it moved the country behind Malaysia as the sixth most revenue generating equity market in Asia. The declines in revenue in Malaysia and Singapore came entirely as the result of declining balances, as average fees were up for both markets. **SLT**



Don D’Eramo
Global head of securities lending
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Adapting to change

With a lot of change in the Asia securities lending market, Don D'Eramo of RBC I&TS explores the region's changing revenue profile and ongoing technological changes

The Asia securities lending market has been in a period of constant change recently. We need only look at the revenue profile and technological advancements in the industry to gain insights into some of the primary drivers.

Changing revenue profile

In 2015, Hong Kong was the standout securities lending market in Asia. The territory accounted for approximately 40 percent of revenues in the region, mainly derived from lending high intrinsic value securities. At the time, the lending of such securities represented over 80 percent of the revenues in Asia, according to IHS Markit data in 2015.

As markets in the region evolved, various corporate events have affected demand in the Hong Kong market, ultimately impacting fundamentals. The knock-on effect of this changing market dynamic produced an environment of lower directional demand, resulting in downward securities lending revenue trends. In addition, several domestic lenders re-entered the market. This has increased the supply of lendable assets, contributing to higher overall liquidity and a change to the revenue mix across Asia.

Fast forward to 2018 and, while Hong Kong continues to grow and remains integral to the region, Japan has emerged as the largest securities lending market in Asia. According to IHS Markit, Japanese securities lending revenues jumped 40 percent year-over-year in 2017, with average fees generated by Japanese equities surging 50 percent to approximately 120 basis points.

This change has been led by high demand for Japanese small cap and technology securities. As some of these securities are not widely held in domestic lending pools, borrowers have been prepared to pay a premium, leading to an upward trend in securities lending revenues within the Japanese market. Furthermore, Japanese companies have been active in the capital-raising space, leading to increased demand for such names and generating a healthy interest in borrowing. Japan was previously characterised as a general collateral to warm market, and the turnaround has been driven by an influx of high-intrinsic value securities lending activity.

On the fixed income side, negative interest rates in Japan have increased demand for federal government bonds and treasuries or other government bonds, further adding to the traction gained in the securities lending market. Generally, activity in Asia has also been influenced by Basel III requirements, resulting in an increase in capital-focused trades such as collateral upgrades and term loans, optimising such high-quality liquid assets (HQLA).

Overall, securities lending activity in Japan has balanced the softening of other traditional Asian securities lending markets such as Singapore and South Korea, where demand has been curtailed by fewer high intrinsic value opportunities in the market coupled with regulatory constraints.

Capturing value through technology

Alongside the continually shifting dynamics across different borders in Asia's securities lending markets, ongoing technological change has also been at the forefront in the region.

New processes and capabilities are enabling the automation of various parts of the securities lending lifecycle, driving higher hit rates where loans are now booked by straight-through processing (STP). There have been numerous benefits derived from the increasing use of STP including a reduction in operational errors and expedited reaction times. The days of booking general collateral tickets are generally associated with a bygone era.

Additionally, beneficial owners have traditionally been reluctant to lend in buy-in markets due to the potential penalties handed out by the exchanges. However, automation across the industry has provided the risk/return comfort needed to attract additional supply to the market. Ultimately, continued enhancements made to counterparty connectivity have enabled more efficient management of lendable assets, resulting in further optimisation of beneficial owner revenues. In general, technology has produced higher utilisation levels for beneficial owners by the mere fact that agent lenders can communicate with brokers in a broader and timelier manner.

There has also been positive movement towards automation and transparency with the introduction of auto-borrow trades, as well as new ways of organising and collaborating in the marketplace. For example, lending providers are creating opportunities to interact more efficiently with brokers on multi-asset class trading platforms such as next generation trading. Rather than waiting for locates, agent lenders have been using technology to actively manage inventory with borrowers at market levels. This minimises back-and-forth correspondence and, once executed, generates STP tickets on both the borrower and lender sides. Automation has ultimately enabled agent lenders to focus on high intrinsic value opportunities and explore new trading strategies to optimise beneficial owner portfolios.

Prior to 2014, lending desks were dominated by Bloomberg messages, manual bookings and numerous lists sent directly to lenders. Today, a vastly different environment exists including capabilities to communicate lending availability files to counterparties at the start of the trading day. These files can contain over 5,000 securities prices from multiple markets across multiple collateral types. Counterparties can easily access inventory and book trades with an automated message to market. Technological change has enabled large amounts of data to be communicated rapidly from across the region to global desks. Both borrowers and lenders can now effectively deploy a 'follow-the-sun' servicing model, whereby Asian desks are passing their books to European and North American counterparts to ensure trades are being filled long after the markets have closed in Asia.

Securities lending is a highly competitive landscape globally, and Asia is no different. The region's markets continue to develop and adapt to an ever-changing environment, across all facets of the industry but especially on the technology front. Agent lenders who leverage technology to improve STP and work efficiently with the broker community are well positioned to rapidly identify lending trends that create value for clients. **SLT**

Another year of progress in Asia

As Asia's securities financing market enjoyed steady progress in 2017, BNY Mellon's Paul Solway suggests that 2018 is shaping up to be another exciting year

In a year characterised by a dearth of market volatility and equity and fixed income markets rallying in tandem, Asia's securities finance enjoyed a solid and sturdy performance during 2017.

If one term can sum up the year, it would be growth: growth across the board in every corner of the Asian market, although allowing for some substantial differences in growth between nations.

After sustaining the trend we have seen in recent years, the Asian securities lending sector continued to add new financing markets throughout the region, see new exchanges and trading venues opening up, as well as a steady pipeline of new products eligible for lending rolling out at regular intervals.

While many Asian asset owners continue to live up to their reputation for being relatively conservative—G10 fixed-income securities remain the firm favourite in the collateral space—2017 also saw Japanese Government Bonds (JGBs) added to many lenders' programmes, adding a very welcome new source of high-quality liquid assets for borrowers in the market.

That said, fixed income collateral tends to be expensive for borrowers to carry or finance on a relative basis, so for many their preference is still for equities. An added attraction is the premium fees available for lenders that can accept indices and global equities which command additional margin to protect any unforeseen market volatility. Cash collateral also remains an option for lenders, but it represents a relatively small proportion of collateral pools in Asia.

The story of 2017 was more than one of simply growth, however. Just as importantly, the year saw the Asian securities financing landscape continue to innovate and evolve as the sophistication, depth of participation and executed volume in the market all ratcheted up.

This increasing sophistication has been evident right across Asia Pacific. Malaysia, for example, recently reintroduced a securities borrowing and lending (SBL) platform that both domestic and foreign investors may utilise, which promises to create a more efficient securities financing marketplace from a price discovery and trading perspective.

Both South Korea and Taiwan have distinguished themselves as early adopters of new identification protocols that require custodians and triparty agents to uniquely segregate investors' positions. These changes provide securities financing participants in both nations with additional protection around lent and borrowed assets, and may represent a model for other Asia Pacific regulators to emulate.

However, innovations in Asia are not limited to achieving trade efficiencies and heightened investor protection. The post-financial crisis era has seen supervisors in many Asia Pacific jurisdictions institute some of the most rigorous transparency and segregation standards in place across the globe.

These standards include short-selling rules in Hong Kong and Korea, requirements that mandate pre-matching borrows in Taiwan and early intraday settlement date requirements in Singapore and Malaysia.

Asian harmonisation

As each of these developments to enhance and strengthen Asian securities finance markets are introduced they also inevitably present an obvious challenge to market participants operation across various jurisdictions throughout Asia Pacific: the need to be able to adhere to different standards in different nations.

As the painstaking work around developing and implementing regulations like the second Markets in Financial Instruments Directive (MiFID II) and the Securities Financing Transactions Regulation (SFTR) testifies, crafting a single harmonised securities lending landscape across multiple countries is a fiendishly complicated enterprise.

If the Asian securities finance market were able to harmonise, the immediate benefits to participants are clear: better performance and efficiency for the market. Achieving harmonisation across Asia Pacific in the long term will take time, especially given that Asian markets retain markedly different exchange rules and quite deliberately so.

If these ambitions for a harmonised Asia Pacific market are to be realised, standard-setting bodies such as

The Pan Asia Securities Lending Association (PASLA) will likely play a key role in laying the groundwork and introducing the contractual and trade consistency necessary to foster a unified marketplace.

PASLA has been coordinating with the Asia Pacific Financial Forum (APFF) to develop a roadmap for Asia-Pacific Economic Cooperation (APEC) Finance Ministers to improve the region's financial market infrastructure. This would be achieved through improved connectivity and interoperability across the Asia Pacific markets.

Securities lending and repo markets are just one of the many streams around which the APFF is developing plans for greater regional integration to craft a harmonised Asia Pacific marketplace. More developments around these initiatives can be expected throughout 2018 and in the years ahead.

Infrastructure

Efforts to harmonise Asian securities financing markets will also be influenced to a large degree by the sophistication of the infrastructure available to participants in the various national jurisdictions.

Perhaps the most notable trend in recent product innovations has been the rapid progress of automation. Quantitative and algorithmic funds are becoming increasingly prevalent in Asia while buy-side clients are executing thousands of securities across multiple markets on a daily basis with ever improving speed and scale.

As this revolution continues and many institutions allocate their investment resources into their internal technological capabilities, the next iteration of market efficiency will depend on connectivity with exchanges and trading venues that may have differing execution criteria across their respective markets.

As such, data aggregation is becoming even more important for participants in Asian securities lending markets to allow investors to execute transactions promptly and accounting for the varying trading requirements from one nation to the next.

The market currently boasts three globally recognised data aggregators that publish enormous amounts of data on an anonymised basis daily. The data is providing greater transparency as well as crucial signals for all market participants.

Despite these advances, challenges around client awareness and education around the securities lending business remain. Agent lenders and prime brokers with a duty to advise and assist their buy-side clients need to remain committed to continued education around products and market developments.

This is another area where industry bodies such as PASLA, the Asian Securities Industry and Financial Markets Association (ASIFMA) and the Alternative Investment Managers Association (AIMA) have an important advocacy role to play in educating participants in both mature and emerging markets

> ***The market currently boasts three globally recognised data aggregators that publish enormous amounts of data on an anonymised basis daily***

Paul Solway
Regional head of securities finance
BNY Mellon

throughout Asia to continue the pursuit of best market practice.

Regulation

2018 looks set to be heavily influenced, as previous years have, by the ongoing implementation of new rules governing Asian securities financing. Regulation is now a constant and global reality in all markets, no matter which region the regulation originates from.

Most tangibly, it has impacted both equity and fixed income lending by requiring a higher level of transparency and speed, the efficiency of the balance sheet as well as greater counterparty scrutiny. New channels of trading have also come to the forefront due to participants reevaluating the way they have traditionally engaged with one another.

Increased regulation has helped create greater synergies between equity and fixed income trading, which has brought about fantastic opportunities for lenders who had previously seen lower returns on their fixed income portfolios.

However, collateral flexibility will become more important than ever in 2018 and lenders will have to consider receiving global equities, JGBs and other investment grade bonds as well as a wider universe of currencies than the traditional US dollar during the year ahead. **SLT**

Emerging opportunities in China and India

Amid the exciting progress in Asia's securities lending in recent years, the two largest Asia Pacific nations have been notable in not featuring as prominently among the markets making strides to develop their domestic securities financing sectors as swiftly as some of their near neighbours.

However, this may be changing. There were some exciting developments in China during 2017 that suggest the securities lending market in the nation may well be heating up.

Perhaps most notably, the MSCI Emerging Markets Index added China A-shares last June. The addition of Chinese equities to the index made long exposure a reality for both active and passive international investors, which is a substantial development for the market.

One major obstacle yet to be overcome, however, is that shorting onshore Chinese equities remains something that only domestic qualifying entities are currently permitted to engage in.

More encouragingly, there is a vibrant and dynamic market for lending activity in H-shares, suggesting that strong demand already exists for short exposure to A-shares.

A policy change from Chinese regulatory authorities to permit shorting activity by international investors could bring this market to life.

The securities financing market in India also remains an area focus for many participants, but more work remains in the country. India has been enhancing its domestic SBL framework in recent years, and these efforts continue to evolve.

Further amendments were made in H2 2017, but additional steps need to be taken before the Indian market can be regarded as reaching its full potential.

Growth recovery to continue

Qu Hongbin, chief economist for Greater China at HSBC, provides an update on the securities lending market in China

Expansion in China's new manufacturing sectors, including car-making and computers, plus a continued recovery in exports should allow the country's economy to grow at 6.7 percent in 2018.

Manufacturing investment, stagnant in mid-2016, grew 4.1 percent in the first 10 months of 2017 and should strengthen to 6 percent in 2018, adding 0.3 of a percentage point to nominal gross domestic product growth in 2018.

The 'new' manufacturing sectors, including transport and electrical equipment, account for 35 percent of total investment compared with 45 percent from 'old' sectors such as food processing and manufacturing, textiles, chemicals, medical products, plastics and metal processing. However, 'new' grew 8 percent in the first 10 months of 2017 while 'old' contracted by 0.4 percent and that divergence will continue.

Underpinning the divergence is the structural upgrading of China's manufacturing. Not only are there fast-growing sectors including electric cars and renewable energy, but also companies are moving up the value chain, and China is becoming an innovative force in smart manufacturing and digital services, led by the private sector.

'Creative destruction' means that although some companies failed after the financial crisis, the survivors upgraded and moved into new markets, making them leaner and more competitive in medium-tech and even high-tech sectors. We expect manufacturing investment to grow 6 percent in 2018 after 4 percent in the first 10 months of 2017.

China's exports fell in 2016, but bounced back in 2017, and we expect the global recovery to give a further 5 percent to 7 percent boost in 2018. The recovery has been led by high-tech exports, including telecom equipment.

The country's exports mirror the domestic economy structural upgrading. Exports of labour-intensive goods stalled have been replaced by machinery and electronics, especially to emerging markets.

Housing investment rose faster in 2017 than 2016, despite slowing growth in home sales. The fall in Tier one cities in 2017 was in double-digits and sales in Tier two cities are now negative too, even if there is still growth in Tiers three and four.

Housing starts have also slowed, suggesting a mild market downturn. We expect housing investment growth of 4.5 percent in 2018, potentially trimming nominal gross domestic product expansion by 0.3 points.

Despite the robust economic growth, consumer price index inflation averaged 1.5 percent in the first 10 months of 2017, down from 2 percent in 2016, thanks to cheaper food. Core inflation pressures should be largely unchanged in 2018, allowing the central bank to maintain a neutral policy stance. Fiscal revenue rose 9.9 percent over 10 months of 2017, compared with the 3.8 percent assumed in the 2017 budget, and fiscal expenditure increased by 10.3 percent, compared with the budget's 6.1 percent.

The $1.5 trillion (RMB 10 trillion) of investment on the Ministry of Finance's public-private partnership list covers all provinces and ranges from urban infrastructure and environmental protection to health and old-age care. We expect a similarly expansionary fiscal policy in 2018, but greater regulatory scrutiny on public-private partnership financing could mean about 10 percent of ongoing projects are cancelled, impacting investment in the near term.

However, for the full year, we expect fiscal policy to remain largely expansionary. We forecast that infrastructure investment will grow 15 percent in 2018, down slightly from 16 percent in 2017. Apart from infrastructure, the government will also explore fiscal policy options to lower the corporate sector's tax burden, incentivise innovation and environmental protection. **SLT**

Exports fell in 2016 but bounced back in 2017, and we expect the global recovery to give a further 5 percent to 7 percent boost in 2018

Qu Hongbin
Chief economist for Greater China
HSBC

The changing landscape

Dane Fannin, head of capital markets, Asia Pacific, at Northern Trust, provides an update on China, Japan, emerging market contenders and the introduction of new technology

China

China presents one of the most significant opportunities for the securities lending industry long term. If one looks at Hong Kong as a proxy for investor appetite of Chinese companies, it is not hard to appreciate the broader investment opportunity of the world's second largest economy. Encouragingly, reform is trending in the right direction as China seeks to open up its capital markets to the global investment community. The Stock Connect platforms have been successful and have paved the way for MSCI inclusion of Chinese shares into their benchmark emerging markets index in mid-2018. This is a positive step towards progressive market changes elsewhere which we hope will extend to development of a feasible offshore securities lending framework within the Stock Connect platforms.

In the short term, China remains a key driver of economic growth for peripheral Asia and indeed securities lending activity. As the Chinese economy gradually moves towards a consumption-driven model, we expect securities lending demand to manifest in those sectors and regional economies with exposure to this theme.

Japan

Japan continues to serve as an important revenue source for clients. With a comparatively deep liquidity profile, it is an obvious destination for investors to deploy quant-related strategies at relatively low cost. This helps sustain healthy loan volumes for the securities lending market albeit at relatively low spreads. Given the nature of demand and abundance of supply, the ability of agent lenders to leverage technology and automate flow remains a key priority in driving performance as borrowers continue to demand reduced latency in execution.

Japan is also home to an important source of collateral (Japanese Government Bonds) used to finance upgrade trades in the region. We see this as a growing trend and opportunity in Asia as regulation driving the use of high-quality liquid assets starts to drive the need to source inventory regionally for clients rather than through more established fixed income trading hubs.

Emerging contenders

Growth prospects appear more attractive over the long term in Asia relative to the US and Europe. While other jurisdictions have been plagued by regulation and a focus on revenue protection, conversations pertaining to Asia typically focus on new avenues of revenue generation given the extensive set of existing and untapped emerging markets, which position the region as a key long-term growth story.

However, Asia Pacific emerging markets do not come without added levels of complexity and risk albeit with an adequately higher return as compensation.

Unlike other hubs, there is a lack of coordinated application of regulation in Asia, which means emerging market securities borrowing and lending (SBL) rules and requirements can look very different from one market to the next. Therefore, navigating these can be a challenge and often requires a non-standard approach.

The extent of a client's appetite for emerging market lending will depend on its underlying objectives and risk return profile. Typically, we find clients entering into a securities lending programme for the first time to be relatively risk-adverse, commencing activity in the more vanilla and developed hubs, before slowly expanding their appetite and guidelines over time to include emerging markets once they are comfortable with the related risks, controls and governance. Clients with more established programmes tend to be more willing to entertain emerging market opportunities, particularly where there are non-standard requirements. This is in part being driven by an environment of compressed yields that has put a spotlight on securities lending as a product to derive additional alpha at relatively low risk. As such, clients are looking to optimise the extraction of revenue from their programmes by exploring new opportunities with a greater risk appetite.

Evolution through technology

Asia's technology needs are not unique. The promises of new technologies such as distributed ledgers, data analytics, robotics and cognitive computing that will likely drive an evolution across the broader securities finance industry should ultimately bring benefits to securities lending that deliver real value to our business and clients.

The adoption of new technologies is already evident on the trading front and is helping to drive greater efficiencies across Asia. As cognitive computing technology has continued to advance, so has the rise of quant funds that seek to deploy algorithmic based investment approaches that demand a greater level of autonomy and reduced latency of execution, driving a need for increased efficiency in the ability to source and borrow stock.

This is changing the way in which borrowers are consuming, pricing and executing securities lending transactions and as such there has been a substantial investment in trading systems to cater for greater automation of the trading life cycle. We expect this trend to continue across both the front and back office and it is important for providers to invest strategically to accommodate the changing landscape. **SLT**

Leveraging your strengths

Japan should build on its strengths by supporting the growth of and facilitating market access for these innovative technology businesses, according to Francois Maury of Natixis

2017 review on Japan

Last year was very favourable for risky assets and strategies, with Japan's main indices recording double-digit growth, without any significant drawdown.

The main event in Japan was the general election in October, with the sweeping victory of the incumbent Liberal Democratic Party (LDP) under the leadership of Shinzo Abe.

LDP's strong lead in the polls in the run-up to the election, followed by its landslide victory, fueled a powerful 15 percent rally of the Nikkei index between September and November as investors welcomed political continuity. The reappointment of Bank of Japan Governor Haruhiko Kuroda for another five-year term starting in April 2018 could also be seen as very reassuring.

Public policies as the main market driver

Over the past few years, public policies enacted by the government and the Bank of Japan (BOJ) have propped up Japanese markets, with 2017 being no exception. BOJ's government debt holding topped 40 percent, while its exchange-traded fund (ETF) holdings reached a massive $150 billion at the end of last year. Another huge player has been the Government Pension Investment Fund (GPIF), which, as the largest pool of retirement savings in the world, appears in the top 10 shareholders list of virtually every large Japanese listed company.

So far, the massive asset buying programme seems to have paid off. The Japanese economy has enjoyed its fastest pace of expansion in 16 years, while unemployment is at historical lows—the lowest in 20 years. However, the tight job market has not been able to generate the above 2 percent inflation target, which was the main stated objective of the BOJ. Therefore, in 2018, we expect the markets to continue to move in lockstep with governor Kuroda's policies. With the Federal Reserve now raising rates, it remains to be seen whether the BOJ will start tapering and tightening or whether it will remain extremely accommodative.

Japan as a financial hub

Tokyo Governor Yuriko Koike has recently initiated efforts to improve Tokyo's status as an international financial hub, in particular by making it easier for foreign companies to establish a foothold in Japan, as well as to support the development of the financial technology scene in the country. These measures, which aim to slash taxes and curtail red tape, should certainly be helpful. The publicity around the 2020 Olympic games will also contribute to boosting the visibility of Tokyo by thrusting the city under the media spotlight.

However, comparisons often drawn between the Japanese capital and Hong Kong or Singapore seem somewhat misplaced. Tokyo, unlike Hong Kong or Singapore, is not historically a free port. Rather, it is the capital of an industrial powerhouse. As such, the Japanese main indices are not dominated by financial institutions, but by a diversity of industrial businesses. Japan should build on these strengths by supporting the growth of and facilitating market access for these innovative technology businesses, a move which we believe would more immediately contribute to the development of its financial markets.

It is also worth mentioning that initiatives designed to attract foreign businesses are also somewhat hindered by BOJ's own policies. The combination of negative interest rates and a weak Japanese Yen (JPY) is not enticing foreign funds to park money in Japan. Higher interest rates and lower taxes in the US, as initiated by President Donald Trump, could further adversely impact Japan's attractiveness.

Stock lending

We had mixed feelings about 2017 in Japan. On the minus side, the historically low volatility and bullish sentiment failed to stoke appetite from end clients looking to short Japanese stocks. Classic equity lending was thus a bit lacklustre outside of special situations or trades related to dividends. Margins remained tight for most of the year, with the exception of deals revolving around the March and December fiscal year ends. On the brighter side, the stronger economy supported demand for interesting equity collateralised financing deals under various formats. Cross-currency transactions with a JPY component strongly contributed to our income.

Japan equity markets are finally moving to T+2 settlement cycle in 2019 from T+3, after Japanese Government Bonds moves to T+1 in 2018. Those moves are welcome as they are a way to promote a more secure and efficient settlement system. This is change is, however, coming in a bit late, with Japan being the last major equity market still on a T+3 cycle.

Company overview

Last year saw Natixis create a dedicated Global Securities Financing Division (GSF). The rationale behind this organisational restructure is to bring under the same roof our fixed income (repo and collateral solutions) and equity finance.

The new setup will allow us to even better optimise scarce resources (liquidity, balance sheet) as well as to propose innovative cross-asset solutions. **SLT**

"Japan equity markets are finally moving to T+2 settlement cycle in 2019 from T+3, after Japanese Government Bonds moves to T+1 in 2018"

Francois Maury
Head of global securities financing, Asia Pacific
Natixis

Picking up the pace

James Manning, executive director of agent lending product, Asia Pacific, at J.P. Morgan, suggests that a combination of factors have helped create momentum in Japan

What is the attitude towards securities lending in Japan?

We are seeing more interest from asset owners in Japan to engage in securities lending. We believe that a combination of factors have created this momentum, including a shift of asset allocations from a predominantly domestic to more of an international focus and a need to maximise all potential sources of return on investment portfolios in a low and negative interest rate environment.

What do you see in regards to client requirements in Japan?

Firstly, clients in Japan have similar requirements for their agent lending programme to other locations. They generally want a clear picture of the returns generated, the drivers behind those returns, affirmation of the risk profile of the programme, and the ability to understand the impact the risk profile has upon those returns. We see a definite preference for non-cash collateral types from clients in Japan.

Secondly, one specific area of focus for Japanese clients is 'operational excellence'. Clients require agents to minimise failed trades and will often have a reporting requirement, or, ethos, to "match to the Yen". For those to whom this ethos is new, the need to reconcile to the penny can be challenging. The challenge often reveals itself when looking to deploy a global process or system to serve the needs of a client in Japan.

J.P. Morgan's historic franchise in Japan, combined with our Tokyo-based lending team, is well versed in bridging the gap between local and global cultural nuances. Furthermore, our ongoing investment into our online securities lending dashboard and agent lending reporting suite highlights our continued focus on reporting.

What trends have you seen in the securities lending market?

We are seeing asset owners increasing their allocation to global assets, for example, we see an increase in outbound investment and a corresponding reduction of the allocation to Japanese domestic assets. From this we have a strong demand for highly-customised trading strategies to lend material balances of general collateral on a term basis while not compromising on specials activity. Strength of balance sheet and having a good handle on capital cost of the agent lender are crucial to success in such a strategy.

In addition, we noticed a shift to a greater allocation to emerging markets for the portion invested in international assets ex-Japan. From this we have then seen interest in lending those assets in newer markets, such as Brazil and South Korea.

What do clients in Japan value about our programme?

Our clients in Japan tell us that they find our expertise in emerging markets lending to be a valued capability, helping them gain a clear understanding of the potential complexities in documentation and intricacies in operation, and then achieving a route to market in a short timeframe.

Furthermore, clients in Japan often prefer to work with counterparts of the highest calibre, and the strength and stability of J.P. Morgan comes up time and again as a reason they select us.

Finally, our clients in Japan value the framework and risk culture that J.P. Morgan brings to every aspect of our agent lending programme. The high quality of J.P. Morgan's due diligence and risk framework greatly assists Japan clients in meeting their stringent due diligence requirements.

With the pickup in interest in agent lending and continued growth in lendable assets of our clients in Japan, we have a long established, dedicated lending team based in our Tokyo office. This has mirrored our approach throughout the region in expanding our presence on the ground to support our growing programme and local clients.

What is the outlook for 2018 and beyond?

We expect to see a continuation of the shift in asset allocation to more global ex-Japan investments as asset owners and institutional investors are set on a course to further reduce their domestic asset allocations. This has a flow-on effect to interest in lending and we believe we'll see further growth in agent lending for Japan clients.

There is a somewhat buoyant mood in Japan, boosted by the ongoing Abenomics programme and preparations underway for the 2019 Rugby World Cup and 2020 Olympics. This renewed vigor has placed Japan in the global headlines again. **SLT**

Don’t forget the essentials

Natalie Floate of BNP Paribas discusses how Australia remains an essential and reliable source of income for any securities lending portfolio

When talking about securities lending in the Asia Pacific the conversation typically starts with Hong Kong, turns to Japan, and ends with Taiwan and South Korea. Although securities lending has been active in Australia since the 1970s, it is rarely discussed in detail. Most of the major custodial lenders and broker-dealers have trading desks in Australia—so why is it not discussed more often?

All major custodial lenders and broker-dealers have trading desks in Australia; it is classified as a major market with a mature regulatory environment and an efficient and automated clearing infrastructure. So what is happening in the Australian securities finance market?

From a securities lending and borrowing perspective the market is active, stable and on-loan balances have been growing but in a measured, incremental way. Desks are active, and the inventory of Australian securities available to borrow has been increasing.

Looking in more detail, there have been a number of notable trends. The increase in lendable assets has been via both offshore and onshore beneficial owners, particularly in Australian equities. The interest from offshore investors is not surprising as asset allocations to the Australian market have always been steady across equities and fixed income. However, the lumpy increase in Australian assets held by onshore investors is a good sign as these are new Australia-based beneficial owners entering the market. This tells us that Australian superannuation funds, fund managers and trustees—those key decision makers who safeguard the investments in our markets—are increasingly comfortable with securities lending.

Regarding trading, large issuers such as banks are again offering dividend reinvestment incentives to their shareholders, which brings back an element of borrow demand that we have not seen in recent times.

The need for collateral has hit the Australian market in the same way that it has in other jurisdictions and the demand for collateral upgrade trades—when a borrower uses one profile of securities to exchange for another with a stronger credit profile via a loan transaction—has continued to increase. This started a few years ago with demand mainly around Commonwealth and semi-government bonds, but is increasing and now includes equities. As more over-the-counter (OTC) trades become subject to mandatory clearing and collateralisation obligations under new global regulatory deadlines, this will also fuel an increased need for collateral. This holds particularly true in Australia where the OTC market was typically collateralised on a limited basis and then by Australian dollars only, which can be expensive regarding the cost of funding.

As the scope of transactions requiring collateral increases the cost of the trade and position increases.

Switching from cash to non-cash reduces this cost, particularly for many in the market, which have large pools of securities, such as pension funds. Collateral and balance sheet management or optimisation was historically a topic for group treasurers, but is now a key element of discussion across all trading floors. From a balance sheet management perspective, optimisation has become key. For large prime brokers, the increased growth in demand for synthetic short exposure has mandated that they change the way they cover or hedge these trades to optimise balance sheet efficiency. Large asset owners with an inventory of high-quality liquid assets have a new revenue source via lending these to treasurers looking to strengthen their balance sheet and liquidity coverage ratios.

Up to now, Australia has been a sore point for global tri-party collateral managers who were unable to break into the Australian domestic market due to the historical manner in which collateral was managed on a bilateral basis between lenders and borrowers. This is changing, partly driven by a desire to standardise onshore and offshore lending activities and to introduce a cross currency collateral capability, for example, lending Australian equities versus Japanese equities as collateral.

Overseas, platforms and applications, which introduce automation to the end-to-end loan process have become mainstream. However, these had not taken hold in Australia until relatively recently. This has been a significant change in the market, and the majority of daily loan activity is now managed via EquiLend's Next Generation Trading platform. All desks have been focusing on automation to become less volume sensitive, resulting in time and cost savings not only for trading desks, but also middle and back offices, as operational processes, such as trade matching, billing and reconciliation are automated.

In 2017, many industry-led discussions focused on general shareholder meetings. Proxy voting participation levels for Australian-listed securities have hit record levels and many institutional investors, particularly superannuation funds, have developed their internal governance policies around the responsibilities of asset owners, choosing to actively vote at all general meetings for their Australian assets. This mandates the recalling of securities on loan to facilitate this vote. This doesn't impact general demand for borrowing securities, but it does cause some disruption as loans sourced by securities from Australian investors are returned and replaced with securities from offshore investors who may not be voting. The resulting impact is to reduce revenues for the Australian asset owners.

So why are we not talking about Australia more? Australia remains an essential and reliable source of income for any securities lending portfolio and no discussion on Asia Pacific is complete without some time spent in Australia, but it's a steady, reliable and consistent market. It may not be headline-grabbing, but no discussion on the Asia Pacific is complete without some mention of what is happening down under. **SLT**

"Australia remains an essential and reliable source of income for any securities lending portfolio"

Natalie Floate
Head of market and financing services for the Asia Pacific
BNP Paribas

The Year of the Dog

Philip Morgan of Pirum Systems suggests that the securities lending market is looking to move out of the regulatory defined era and is increasingly looking to adopt technology to assist as a catalyst for evolution

As evidenced by the agenda of the Pan Asia Securities Lending Association (PASLA) conference, there continues to be a polarised approach when we consider the case for globalisation in securities finance. In most instances, institutions continue to demand or at least push for a homogenised holistic solution, however, in reality, this nirvana state always needs to be balanced against pragmatic institutional, local and regional considerations.

In the following article, we aim to provide an update on industry trends observed in daily interactions with customers, with a specific focus on Asia.

While there are of course individual variances, what's remarkable is the degree of consensus of the message from industry practitioners. The themes can be summarised as demand for improved: transparency, connectivity, efficiency, automation and risk management.

Regulation: a global concern?

For financial services, the previous year's debate has been dominated by regulation and its operational ripple effects. Most recently the market has faced and dealt with the second Markets in Financial Instruments Directive (MiFID II), European Market Infrastructure Regulation (EMIR), Dodd-Frank and Basel III, amongst others.

It does seem that at long last we may be departing the era of regulation and moving into one that is likely to be defined by technology and data. There is, however, one small regulatory matter to be attended to, which is, of course, the Securities Financing Transactions Regulation (SFTR). The changes that SFTR will likely bring should not be underestimated and is an area of key concern for the global client base this year. The regulation has the potential of heralding a new operating model for our industry.

Thus far it has largely been deemed a European problem. However, SFTR is likely to increase transparency across the whole of securities financing. The regulation includes many new rules, including a requirement to report all SFTs including repos, margin lending, stock loans, buy/sell backs and commodity loans and for these to be reported to an approved trade repository on a T+1 basis.

Although the SFTR reporting obligations only currently apply to any entity established in the EU, if a non-EU entity enters into a securities financing transaction via an EU-domiciled branch, then they will be fully in scope. Additionally, in some situations, there is likely to be extraterritorial impacts. For example, Asian entities not in scope but trading with an EU counterpart must still provide the EU entity with a reasonable amount of information (for example, legal entity identifiers) to enable it to report.

These transparency focussed regulatory reforms are predominantly driven by the US and EU in the short term. However, it is more than possible that these could trigger mirror developments in other regions including Asia.

Our clients suggest that it may not be unreasonable to think that other regions may follow suit with transaction reporting regimes (especially as SFTR derives from a financial services board mandate in the first place).

While it may be more difficult to implement a blanket approach in Asia due to a more fragmented landscape than in the EU or US, industry bodies and regulators in Asia are nonetheless taking careful note of market developments elsewhere.

Pragmatic post-trade automation

As already noted, Asia has a fragmented landscape in comparison to other regions, with its 9 active equity finance markets varying in market complexity and infrastructure. The levels of automation in some more emerging markets such as Korea, Taiwan and Malaysia are at odds with models seen in more established jurisdictions including Hong Kong and Japan.

Given its recent growth in Asian equity, revenues are up 10 percent over 2017, compared with the previous year and 5 of the nine countries registering a growth rate greater than 20 percent compared with Q4 2016. The demand for post-trade automation in Asia continues to rise.

PASLA recently noted that "technology just cannot be ignored this year given institutions' insatiable pursuit for greater efficiencies".

In recent years, Asia has embraced front-end technology solutions. However, a pragmatic review of post-trade automation is still necessary, and we have outlined a few key market opportunities below.

South Korea

South Korean equities securities lending income was more than $53 million for the last quarter of 2017, with revenue down 28 percent from the previous year. Despite this, South Korea remains the third largest market in Asia (after Japan and Hong Kong and the sixth largest market globally).

The market is dominated by the two central intermediaries—the Korea Securities Depository (KSD) and the Korea Securities Finance Corporation (KSFC) borrowers choose to either borrow directly from KSD/KSFC (known as an arranged transaction) or choose to borrow with a market counterparty through the KSD/KSFC (known as a customised transaction).

Any Korean transaction executed through either party attracts an intermediary fee, calculated depending on the type of transaction and SBL fee. In the current state, borrowers are reliant upon spreadsheets of data which are sent by their agents in Korea. If a trade reconciliation is done, it is entirely manual, and can only be for the arranged trades/collateral. Borrowers are understandably looking to improve automation as it achieved in more established lending markets.

Borrowers are increasingly using Pirum's automated reconciliations to add scalability and control to their Korean business. Pirum first took up the challenge of providing customised reconciliations for South Korea back in 2014, with the introduction of reconciliation for those using the KSD. In 2016, Pirum extended this service to include the KSFC. The last 12 months have seen extraordinary growth in interest, with trades reconciled up four-fold.

Taiwan

With an on-loan balance just over $9 billion, Taiwan has seen a year-over-year increase of 21.8 percent in securities lending income. Additionally, the average lendable value has increased by 34 percent in the last year, so it is understandable why participants in this market were keen to improve levels of automation.

Taiwan consists of around a dozen local brokers, who can either lend to participants directly or through the Taiwan Stock Exchange (TWSE) who act as a central counterparty (CCP). Each local broker sends daily open trade statements to its counterparties, however, as the formats of statements vary or contain limited data reconciliation can prove challenging and is often manual.

Pirum's head of client services John Tootell explained that "looking at Taiwan was a natural progression after completing the integration for Korean business. In a matter of months, our team have been able to process all the local broker files, clearly showing any breaks to our clients. Pirum's flexibility during the integration process allows us to take in data in any format, and to quickly give our clients the results they are looking for".

Singapore and Hong Kong

The stock loan revenue associated with these markets is more than $75 million over Q4 2017 and is amongst the most dynamic Asian markets. This scale is reflected regarding the instant automation demanded by our client base. Client requests for automation have focused on exposure management, to enable management of multi-client margin call requirements, and Asia Pacific close of business market prices.

Global clearing

CCPs have been long talked about in the securities lending industry yet widespread adoption has been slow to come to fruition. Will 2018 be the year where this finally changes?

In Europe, CCPs have made great strides in enhancing their service offerings and making it easier for clients to on-board, and CCP usage in the US increased throughout 2017.

Elsewhere, while following different operating models, CCP's in markets such as Brazil, India, Taiwan and Korea are widely utilised within securities lending. It looks increasingly likely that CCPs will continue to develop globally as the move towards more clearing continues.

Pirum's CCP gateway service for securities lending is alert to the complexities of the securities finance ecosystem and differs from traditional CCP models found elsewhere in financial services. Using its real-time connectivity, bilaterally agreed trades can be fed to the CCP for novation. Enabling securities lending participants to balance the bilateral nature of the initial trade with key post-trade lifecycle events such as rate changes, recalls and corporate actions conducted via the CCP.

The capital benefits from using a CCP are well known, however, through an effective gateway, clients are achieving high levels of automation and straight-through processing, which deliver enhanced operational efficiencies. This in addition to risk reduction through standardised processes around collateral management, mark-to-markets, returns, billing, income collection and corporate actions.

Pirum's live service customers, who are currently using or looking to adopt the CCP Gateway service, have little or no technical build to undertake before they can begin trading through the supported CCPs. The global connectivity hub also anticipates integrating new CCPs seamlessly into the gateway service as markets adopt clearing as a norm.

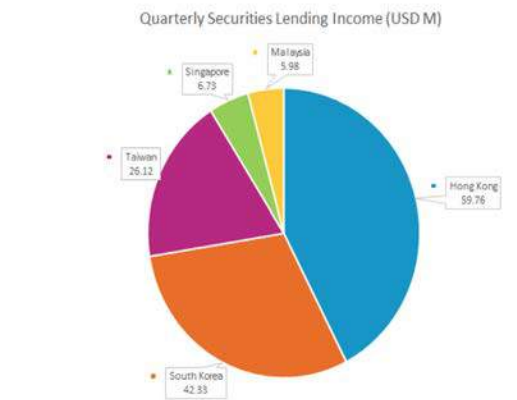

Figure 1. Source: IHS Markit

Follow the sun

The securities finance markets, particularly in Europe, the Middle East and Africa region, have benefited in recent years from the proliferation of triparty agency services for collateral management. Triparty activity can be collateralised more efficiently than the traditional non-cash bilateral model, and this efficiency drive has enabled real change in the handling of margin calls by our clients.

Overall risk management has been enhanced through exposure management and margin call improvements. Processes are now being repeated multiple times per day, which in turn has added pressure on the prepay model (where loans are collateralised before the value date) because borrowing counterparts are increasingly favouring same-day settlement to minimise their overnight exposure and financial resource drain.

The shift towards the same day model and the requirement for intraday collateralisation, brings with it the debate as to which point on the value date should a new loan be collateralised?

Especially when we consider that many global market participants often trade using a single book across the Asia Pacific, Europe, the Middle East and Africa and the US markets.

In response to this globalisation and requirement for enhanced risk management, Pirum has launched its ExposureConnect service as a centralised platform for the calculation, communication and agreement of exposures.

One of the key features is the prioritisation around new loans by market opening times, enabling clients to manage same day collateral requirements for the Asia Pacific separately to other regions, allowing a true 'follow the sun' workflow. This functionality extends to cover all forms of collateralisation including bilateral, cash and triparty activity.

Enterprise-wide collateral management

Following enhancements to global exposure management processes institutions are increasingly looking to go one step further and build a truly global enterprise-wide collateral management system.

The role of ECM is to centralise and ultimately optimise a firm's approach to counterparty risk management, collateral trading and funding, across multiple products. Regardless of the region, institutions require a single, enterprise view all collateral requirements as well as an improved and algorithm-based model for the deployment of their available assets.

To meet this demand, Pirum has developed its CollateralConnect product to improve visibility and more effectively cover margin exposures ensuring efficient delivery of collateral and enabling best use of a collateral pool concerning a firm's preferred risk-return profile, financial resource usage targets and prudential compliance requirements.

This is a natural extension of existing back and middle office activities and will look to assist front-offices in the more efficient management of collateral management within securities finance.

So, while the drive for globalisation is undoubtedly here, with institutions looking to improve their holistic operating models and enhance overall efficiency. These pursuits need to be balanced and reconciled against regional idiosyncrasies as well as organisational and system limitations.

Undoubtedly, the market is looking to move out of the regulatory defined era and increasingly looking to adopt technology to assist as a catalyst for this evolution. We at Pirum welcome this new era and look forward to working with our partners to assist in this development. **SLT**

"The regulation includes many new rules, including a requirement to report all SFTs"

Philip Morgan
Chief commercial officer
Pirum Systems

Asia's technology needs

David Raccat of Wematch.SecuritiesFinancing reviews the differing technology needs of Asia's developing securities financing markets

When looking at the title of this article, one could wonder why Asia would have specific technology needs. Is Asia in a different situation compared to other regions in terms of technology? What is driving technology today and should we systematically consider all markets as being global or are there significant nuances putting Asia at a specific milestone compared to Europe or the Americas?

We will first look at global trends impacting not only Asia but all regions in the securities financing markets, and then we will focus on Asian markets and specificities impacting this exciting region.

Technology revolution: global trends

The current technology revolution, which is impacting the securities financing industry, is driven by multiple factors. It is particularly strong on a global scale and all market segments feel the hit.

Firstly, the regulation has pushed for a significant change in the securities financing landscape. A market which was heavily driven by equities and with cash collateral has seen a profound change with a sharp increase of fixed income volumes and with non-cash collateral. Low interest rates, tax harmonisation, Basel III liquidity ratios (liquidity coverage ratio and the net stable funding ratio), capital and balance sheet costs related to securities lending and repo, have become major drivers and have impacted bank's structures and priorities. Tenors are being pushed as well and the traditional short term / open business is being rebalanced strongly with the increasing volumes traded on a longer term basis (especially on fixed-income assets). More complex structures (for example, evergreens, extendable trades) are on the rise as well, provided the lenders have the ability to lend their assets on a term basis.

The strong development of cross-asset structures (high-quality liquid assets; mainly government bonds being lent against less liquid collateral; equities, corporate bonds, convertible bonds, or even exchange-traded funds) has triggered structural changes in banks' setups (merged desks) and has moved the industry into a very tailor-made environment with multiple collateral schedules managed by various triparty agents. This situation is proving challenging for the industry to move into a more digital and normalised approach, even though there are some possible answers. We are spending quite some time and budget within Wematch to try and find an acceptable balance between the need to maintain a directed and customised approach and the natural move towards digitalisation.

The ability to provide the market users with flexible input screens and negotiation models will be the key to gather adherence and liquidity, however, a certain form of normalisation is needed in order to offer a fully digital setup and the name of the game will be to find the right balance between normalisation and customisation.

Another key dimension has been related to the increased requirements around transparency, best execution, price discovery, and digitalisation. This has naturally pushed for less voice trading and for the emergence of trading venues and electronic platforms.

Organised trading facilities (OTFs) can onboard their clients as per their guidance, and have the ability to tailor-make the onboarding process as per existing master agreements, collateral schedules, and trading preferences. Matching algorithms can also offer as well optimisation and more efficiency. Those requirements have been pushed by the regulators but allow the industry to kill two birds with one stone. The bottom line increased usage of platforms will allow users to benefit from more automation, less directed business, anonymous negotiation processes enhancing price discovery, and less operational risk (hence a lower capital cost).

Finally, and with no surprise, there is no reason why this industry would escape to the global trend around the emergence of artificial intelligence. The pace might be slower than on other industries, but the benefits are obvious even though they need to pass the hurdle of change management. The securities financing industry has historically strongly invested in post-trade processes and operational efficiency, which makes it unique in the capital markets world. There is a clear lag in trading and front-office automation, but the gap with other products is narrowing and multiple initiatives are offering market participants best-in-class solutions to dive into automation and efficiency.

Asia seems ready to embrace technology (r)evolutions

As one of the most dynamic regions in the world with an increasingly diversified economy, an expanding middle class, and a young and literate population, Asia is very well positioned to embrace the ongoing global digital transformation. Digitalisation can spur the much needed innovation and productivity growth across all products, and improve the day-to-day of dealers in the region.

It was very symptomatic to see how quickly Asia-based users got on-boarded, connected, and have started to use the Wematch platform when we launched our early shift in November 2017 to cover the Asia Pacific markets. The first trade on Japanese equities has been confirmed on day two and the appetite of the desks in the region has been extremely strong.

Asia being naturally more weighted on synthetic structures (total return swaps (TRS)), the adoption of the platform has been quasi real time, as TRS are fully normalised, standardised, and easy to digitalise. The above-mentioned challenges around securities lending and repos, and the associated customisation are true as well in Asia, however, the desire to move quickly with new digital solutions, and the ability to adopt change in behaviour seems to be quite natural and the pace of adoption is proven to be extremely quick.

There seems to be a natural appetite for digital solutions, and it looks like artificial intelligence is very well accepted by the users, for example the 'suggested matches' section in Wematch, which proactively push axis and structures to the users based on their behavioral pattern is very much used and very well received.

The global needs are impacting the region as well (best execution, price discovery, transparency and reporting to trade repositories, clearing) in addition to strong requirements impacting the local markets (liquidity ratios, extraterritoriality impacts coming from head offices and/or from trading with European/US entities).

One piece of additional complexity in Asia is obviously the differences between all markets and their current (and foreseen) level of automation. All markets are not showing the same level of maturity for securities financing, and the ability of Japan or Hong Kong to adopt trading platforms might not be the same compared to Malaysia or Philippines. One single market place offering an ecosystem for both synthetic and physical structures will be considered as a strong plus in the region.

Wematch offers cross-product matches between TRS, repo and securities lending, which is particularly well adapted to most of the Asian markets, where the three products are being traded by securities financing desks. The ability to move from a TRS to a repo with a single click offers the users full flexibility and efficiency.

Finally, all markets deserve the same access to digitalisation and automation, and the challenge for the providers will be to adapt and connect efficiently with all markets in the region. A very exciting challenge and project, which will contribute to the digital transformation of the region, as part of the global revolution impacting our industry. **SLT**

"The ability to provide the market users with flexible input screens and negotiation models will be the key to gather adherence and liquidity"

David Raccat
CEO and founder
Wematch.SecuritiesFinancing

Robert Akeson, COO (left)
Richard Misiano, global fixed income (centre)
Peter Volino, global equities (right)
Mirae Asset Securities (USA)

Over the hedge

Peter Volino, Richard Misiano and Robert Akeson of Mirae Asset Securities discuss how the firm is working to support emerging and small hedge fund managers

We have been following Mirae Asset Securities's entry into the financing and clearing businesses. Can you give us an update?

Peter Volino: Since the firm launched in the summer of 2017, we have accumulated over $55 billion in financing balances. Our repo and securities lending businesses now have over 150 and 85 counterparties, respectively—we are very pleased with our progress here.

The firm has also begun to establish itself as a high touch, prime brokerage boutique and has started adding customers. We expect to onboard our first correspondent clearing client shortly: we believe the firm is a terrific fit for introducing prime brokers.

Mirae also has an active agency execution business and is attracting significant client order flow because of our ability to offer high-touch and electronic execution services. It also features foreign research and corporate access services.

The platform supports clients that transact in equities, fixed income and options. Through our relationship with BNP Paribas, we can clear and settle transactions, and custody assets in over 90 international markets. In addition, we are in the process of expanding our capabilities to include municipals, options execution and portfolio margining.

What are the possible benefits to Mirae Asset Securities from your affiliates?

Richard Misiano: The foundation for our success in prime brokerage and financing has much to do with the strength and vision of our Mirae affiliates. As a whole, Mirae is one of South Korea's leading financial services firms. We operate in 15 country markets.

As of 31 December 2017, the firm's asset management businesses had approximately $389 billion of total assets under management, while its various broker-dealer subsidiaries and affiliates had approximately $7 billion in equity capital.

As part of its global expansion strategy, Mirae (through the firm, which is based in New York) has made a significant commitment to entering the prime brokerage, securities lending, repo, correspondent clearing, agency execution, corporate access and foreign research distribution businesses in the US. In the process, the firm infused $250 million of permanent capital to the US-based office. The firm also entered into several multi-year agreements with service providers.

Other notable moves made recently include the placement of over $300 million of investment capital with its investment advisory and wealth management affiliates in the US. The UK affiliate was also the recipient of $500 million of proprietary trading capital.

Mirae is further reviewing how best to allocate assets to hedge funds and other professional investment firms in the US. So far, that effort has resulted in the placement of, approximately $100 million in assets with Mesirow's fund of funds business. We expect that these efforts will continue and will generate synergies with the prime brokerage business.

Cross-fertilsation is a big part of the group's business DNA. Where appropriate, we encourage our affiliates to work together closely.

What is the firm's view of the emerging and small hedge fund managers?

Robert Akeson: We think that emerging and small fund managers play a very important role in the investment world. Studies show that such managers reflect that they have generally outperformed larger more established managers on a risk-adjusted basis since the emergence of the industry in the early 1990s. Emerging and small managers often have an advantage due to their nimbleness. As volatility returns to the market, these managers will be well-positioned to excel, from a strategy standpoint.

However, in our post-Basel III, Dodd Frank and Comprehensive Capital Analysis and Review World, emerging and small fund managers have far less access to many prime brokers, especially ones that roll-up to bank holding companies. This is entirely understandable given balance sheet restrictions being placed on those prime brokers, so they are forced to focus their attention on the largest fund complexes. In addition, continued balance sheet shrinkage has resulted in repricing of hedge fund services, suggesting clients to change their investing style or, simply firing them. In some instances, prime brokers themselves have exited the business.

Another regulation that could have serious impact on emerging and small managers is the second Markets in Financial Instruments Directive (MiFID II). Although not the law in the US, MiFID II will likely have cross border implications. If so, it may be costlier for these managers to operate because of the unbundling of research.

Managers have also been very challenged by the seven-year, long-biased bull market. This environment has prompted the rise of passive investing, resulting in fee compression for active managers. As a result, managers must look for ways to operate as cost-efficiently as possible.

What role can the firm play in supporting emerging and small hedge fund managers?

Akeson: To survive, much less excel, emerging and small managers must partner with the right prime broker. At this time, the firm has the balance sheet, pricing strategy, know-how and other required resources to support these managers. We are also a well-capitalised boutique that can provide customised solutions to these managers. Accordingly, such managers will not receive second-tier service.

The firm can also help emerging and small managers successfully manage their operational risk and costs. Increasingly, investors view due diligence that they perform on a manager's business operations to be of critical importance and a key factor in making an investment decision. Mirae can guide and support them in this area. To this end, the firm has partnered with FIS, a public company with over $30 billion plus in market capitalisation, to develop the first-of-kind, fully-integrated operational platform, Securites360.

Securites360 automates and streamlines critical operational tasks into a single platform. This platform includes industry-leading solutions for investor services, trading, compliance and risk, middle- and back-office services, instant multi-currency account information, securities finance, corporate actions and tax. As a result, operational efficiency is increased, while at the same time, complexity and risk are reduced—meaning a big competitive advantage for us. Emerging and small hedge fund managers stand to benefit from this offering, in part by helping them to better manage their costs and operational risk. This will enable them to focus on what they do best—running money.

The firm can also assist managers successfully launch their businesses and connect with appropriate strategic partners for enterprise technology, cyber security, compliance, fund administration, legal, human resource, investor relations and capital raising. In short, small and emerging managers are our 'sweet spot'.

How does the firm's financing desks support emerging and small hedge fund managers?

Volino: Access to financing is critical to hedge funds. It is especially challenging for emerging and small managers, who may not get the attention they need from larger prime brokers because of where they are in the 'queue'. On the other hand, those prime brokers that pay sufficient attention to these managers, may not have all the resources required to satisfy their needs. Because of its size and boutique approach, the firm strikes the perfect balance between the two.

On the global securities lending side, we facilitate short sales by accessing supply on a competitive basis. As markets become more volatile and less long directional, short selling will be even more critical. The firm's experienced securities lending team is well positioned to advise managers on the factors driving supply and demand. For example, they analyse flows from various sources including agent lenders, broker dealers and the derivatives market. In doing so they are better able to assess demand, availability and rates. In addition, our reach is enhanced through BNP Paribas, the firm's global custodian.

The firm can also finance their fully-paid for positions. It is also an OCC Stock Loan Hedge Program participant, which serves and enhances our balances with counterparties. It also increases the number of counterparties we deal with. Combined, these factors broaden our access to supply and improve price discovery, which benefits our target managers.

Another potentially important source of securities for our clients are our own Mirae affiliates. For example, certain affiliates may hold securities that have not been lent before and are in great demand. We then work with these affiliates to optimise the use of these assets.

Regarding repo, our desk provides significant liquidity to clients by financing and clearing their fixed income securities. In turn, this frees up their cash to be invested. Also, the firm can finance all or a portion of the manager's positions.

How does the Mirae's technology offering differentiate itself?

Misiano: The firm's technology offering is focused on providing hedge fund clients with easily accessible information and a high degree of flexibility. We do this by delivering a single point of entry to all applications through our MiraePrime Portal. With one click, clients have access to positions, balances, transaction history, portfolio data, statements, confirms, tax documents and more. This information is available on a instant basis. We can provide client reporting using multiple formats, such as data files, or directly from the MiraePrime Portal.

In addition, Mirae offers custom integration with vendors. We remain flexible by allowing clients to use their preferred trading platforms, or clients can leverage our platform to realise cost savings. We also offer clients access to a portfolio reporting and analytics platform, or will support their vendor of choice to meet their portfolio accounting needs. The firm also provides clients with direct access to its technology team to assist with developing custom solutions for clients so they may achieve streamlined efficiencies. **SLT**

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BNP PARIBAS

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BNP Paribas Securities Services is a multi-asset servicing specialist with 34 offices around the world covering more than 100 markets. As of 30 September 2016, BNP Paribas Securities Services had $9.577 trillion in assets under custody, $2.174 trillion in assets under administration, 10,381 funds administered and over 9,530 employees.

With an in-depth knowledge of global markets across multiple asset classes and currencies, BNP Paribas Securities Services has supported securities lending and borrowing activities for many years.

With seven desks world-wide covering established securities lending and borrowing markets and providing in-depth knowledge of local market trends and across multiple asset classes.

BNP Paribas Securities Services' proven track record in the securities lending and borrowing industry is the result of strong trading expertise, robust risk management policy and control and the continuous development of operational efficiencies.

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BNY MELLON

New regulations and market changes have transformed securities financing for investors, institutions and intermediaries. In this evolving environment, new tools and strategies can help you to collateralise transactions, enhance returns and facilitate liquidity more efficiently. If you are looking for effective and distinctive ways to address your securities finance needs as you navigate through evolving markets, contact us today.

BNY Mellon Markets helps clients access capital and financing with a comprehensive suite of innovative solutions and services covering foreign exchange, securities finance, collateral management and segregation, capital markets, liquidity and prime brokerage services.

We are a global investment company dedicated to helping our clients manage and service their financial assets throughout the investment lifecycle. BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. With $29.5 trillion in assets under custody and $1.7 trillion in assets under management*, We can act as a single point of contact for clients looking to trade, manage, or restructure investments. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK).
* As of 30 June 2016.

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HSBC

HSBC is well-positioned globally with a geographic footprint encompassing both developed and emerging markets, providing us with a global perspective on trade activity passing through the world's trade corridors.

IHS Markit provides performance benchmarking, exposure calculations and structural analysis for securities lending programmes.

The consultancy team has many years of consulting and practitioner experience in securities finance and programme analysis. The team draws on the most globally comprehensive daily stock loan database available dating back to 2002. It tracks $2 trillion on loan from a pool of $15 trillion of securities in the lending programmes of over 20,000 institutional funds.

Securities finance consulting provides fully independent research and advice to institutions already active, or considering becoming active, in the securities finance market. This includes repo, securities lending and prime brokerage activities.

With a reporting infrastructure built around the unique securities finance data set, the consulting team have a proven track record in providing:

- Performance benchmarking, covering periodical securities lending performance compared against a predefined, comparable peer group
- Programme evaluation, including indemnities, exclusives, fee splits and compliance
- Exposure reports, spanning counterparties, loan/collateral matching and peer group comparisons
- Collateral reviews and spotlight surveys

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For over 35 years, J.P. Morgan has offered institutional investors the opportunity to enhance their portfolio returns by providing customised securities lending solutions that draw on our risk and credit expertise and global equity and fixed income trading capabilities. Through a programme designed specifically for them, our clients may define individual programme parameters to meet their specific risk/return requirements. Our approach to client service means we deliver the full capabilities of the firm—including trading, risk and market intelligence, technology and experienced servicing teams—to help all clients enhance return, mitigate risk and increase efficiency.

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Mirae Asset Securities (USA) provides prime brokerage, securities lending, repo, correspondent clearing, agency execution, and foreign research distribution services to the institutional community.

It's parent, Mirae Asset Financial Group, is South Korea's leading financial services firm and operates in 15 country markets. These markets include South Korea, Australia, Brazil, Canada, China, Colombia, Hong Kong, India, Indonesia, Mongolia, Singapore, Taiwan, the UK, the US and Vietnam. As of 31 December 2017, the group's asset management businesses had approximately $389 billion of total assets under management. Its various broker-dealer subsidiaries and affiliates had approximately $6 billion in equity capital.

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Natixis is the international corporate and investment banking, asset management, insurance and financial services arm of Groupe BPCE, the second largest banking group in France with 31.2 million clients spread over two retail banking networks, Banque Populaire and Caisse d'Epargne.

With more than 17,000 employees, Natixis has a number of areas of expertise that are organised into four main business lines: asset and wealth management, corporate and investment banking, insurance and specialised financial services.

A global player, Natixis has its own client base of companies, financial institutions and institutional investors as well as the client base of individuals, professionals and small and medium-size businesses of Groupe BPCE's banking networks.

Figures as at 30 September 2017.

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Pirum offers a secure, centralised automation and connectivity hub for global securities finance transactions, enabling complete automation of the post-trade and collateral lifecycle. Our position within the securities financing market enables clients to seamlessly access counterparts, tri-party agents, trading venues, market data companies and CCPs, as well as regulatory reporting facilities.

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Vendor Profiles

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RBC Investor & Treasury Services

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(1) Standard & Poor's (AA-) as of 30 November 2017, compared to the top 10 global custodians by AUA

(2) Global Custody Survey, Global Investor ISF, 2011 to 2017, unweighted

(3) RBC quarterly results released 29 November 2017

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