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Published by Black Knight Media Ltd

Not short on confidence

The volatility that has hit Asian markets, brought about by fears over China's stuttering growth, has yet to strike a real blow to securities borrowing and lending in the region.

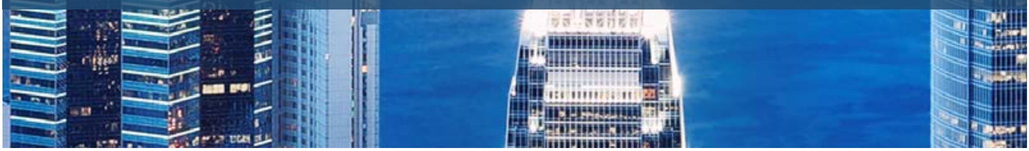
Confidence in the business remains strong globally and this has translated into Asia, where an average fee of 97.06 basis points (bps) can be commanded. Compare that to North America's 38.4 bps and Asia, although it has less lendable value, looks like an attractive spread.

With these opportunities in mind, Securities Lending Times presents its Asia Handbook 2016. Included within these pages is all of the information and advice that you could want on the business in Asia, as it stands today.

Thanks go out 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.

Mark Dugdale
Editor

Contents



Contents

Fix it before it breaks

Asian regulators tinkered with rules in the second half of 2015 amid a prolonged period of volatility, as foreign investors sought out China and stock exchanges traded knowledge. Drew Nicol reports

In Hong Kong, the latest update to the Hong Kong Stock Exchange's short selling list added 32 securities and removed 12, effective 19 February 2016.

The likes of Everchina International, Chong Hing Bank and CCT Land Holdings were added to the list, while Regal Hotels International, SinoMedia and ICOgroup were among the companies removed.

The total number of designated securities for short selling was 870 after the revision.

Everbright Securities valued its Hong Kong initial public offering (IPO) at $2.5 billion.

The Shanghai-listed company, part of the state-owned China Everbright Group, earmarked some of the proceeds for expanding its securities lending and margin financing operations.

Everbright Securities saw revenue grow by almost five times in the first half of 2015, compared to the same period in the year before, to stand at CNY 12.83 billion ($1.9 billion).

AXA Investment Managers appointed Deven Chau as senior trader in its trading and securities financing team in Hong Kong.

Chau reports into Laurent Bilard, head of trading and securities financing in Asia.

Previously, Chau was a business manager and dealer at Hamon Investment Group.

The trader operates in tandem with the rest of the trading and securities financing group at AXA.

Nicola Egan, head of trade execution for US and Asia equities, oversees the equities side, while Lee Sanders leads fixed income and foreign exchange.

Paul Squires, global head of trading and securities financing at AXA, commented: "The Hong Kong office is the hub for the execution of all Asian securities covered by our trading and securities financing team."

"This includes fixed income, equities, exchange-traded funds, local foreign exchange and derivatives. It is fantastic that some of these orders can be received from our portfolio managers based in Tokyo, Paris and London, in addition to Hong Kong."

Hong Kong's Securities and Futures Commission (SFC) proposed expanding the scope of short position reporting to all securities eligible for short selling on the Hong Kong Stock Exchange.

Under the proposed changes, short position reporting will be extended to all shares designated for short selling.

At the time of the proposed changes, 127 stocks were subject to short position reporting.

The SFC anticipated that expanding coverage to all designated securities would reveal aggregated short positions of more than HK $100 billion (US $12.9 billion).

The reporting threshold trigger for designated securities that are stocks would remain unchanged, at the lower of 0.02 percent of the stock's market capitalisation, or HK $30 million (US $3.87 million).

But for collective investment schemes, which include exchange-traded funds, real estate investment trusts and other unit trusts/mutual funds, the reporting threshold trigger would be set only at the HK $30 million threshold.

Ashley Alder, CEO of the SFC, commented: "We have seen growth in short selling since the short position reporting regime was introduced in 2012. The expanded regime will help improve monitoring and enhance market transparency, and this will be conducive to the long-term development of the industry."

DataLend appointed Robert Antelmann as its vice president and product specialist in Hong Kong.

Antelmann was most recently a senior business analyst for Westpac, based in Sydney, working in global over-the-counter derivatives.

Before that, he spent more than 16 years at Citigroup in London, Frankfurt, New York, Hong Kong and Tokyo, in securities finance trading and management.

He has been a representative of PASLA, and has robust knowledge of the Asia Pacific securities finance market.

As DataLend's representative in Asia, Antelmann is responsible for helping to work with new clients, supporting existing clients and gathering and documenting business rules and requirements.

He works closely with clients on adopting new functionality and provides quantitative support for the DataLend suite of applications.

Japan eases market volatility

The Bank of Japan began including treasury discount bills, or T-bills, as approved securities to be sold through the Securities Lending Facility, effective from 1 September 2015, in response to market volatility.

A statement from the central bank suggested the move aimed to increase liquidity and ease stress in Japanese government fixed income markets and would "further facilitate the bank's money market operations as well as contributing to smooth settlement of Japanese government securities".

For the newly added T-bills, the upper limit to the amount of sales per issue equalled either the amount outstanding of the bank's holding or JPY 100 billion, whichever was smaller.

Counterparties were also "permitted to consecutively purchase the same issue from the bank for a maximum of five business days".

However, the rule was not applicable to rollover transactions subject to fails charge in accordance with market practice. The minimum fee rate was set at 0.5 percent.

Japan's Kawada Capital Brokers expanded its prime custody services to hedge fund clients of its prime brokerage business.

The firm now aims to provide both prime brokerage and global custody services through a fully integrated platform.

Building upon the launch of its enhanced prime brokerage offering, the prime custody service enables clients to segregate securities using a bank custodial account.

The platform utilises Kawada Capital Brokers Securities Services and Kawada Capital Brokers Prime Brokerage.

The integrated prime custody offering includes efficient movement of securities between custody and prime brokerage accounts, consolidated reporting, a single client-facing technology portal and a dedicated client service representative supporting all products.

The services expansion was also complemented by the appointment of Mark Kozuki as CEO of the firm's securities services business.

Kozuki, who took on the role in December 2015 and is based in Tokyo, is responsible for all aspects of the securities services business, including sales, operations, technology, product, client service and the organisation's strategic agenda.

Prior to joining Kawada Capital Brokers, Kozuki served as managing director and regional business head at a large investment bank. He managed the custody and clearing services, fund accounting and fund administration businesses.

The Japanese brokerage subsidiary of Mitsubishi UFJ Financial Group, Kabu.com Securities, signed on to DataLend for securities finance market data.

DataLend operates on what is known as a 'give-to-get' basis, whereby clients must supply their securities finance transaction data in order to access DataLend's aggregated industry data in return.

Masakatsu Saito, president and CEO of Kabu.com Securities, said: "Year after year, trading volume has increased and competition has intensified in the Japanese domestic market, thus it is essential to know trends of market and other companies."

"We believe that we can contribute to client revenue by performing ratings referencing DataLend data."

Taiwan's regulatory tinkering

The Taiwan Stock Exchange (TWSE) is now allowing unlimited day trading for all securities eligible for margin trading and short selling, covering almost all of the stocks, exchange-traded funds (ETFs) and warrants listed on its market.

The relaxation follows the implementation of the Taiwan Financial Supervisory Committee's (TFSC) amendments to the relevant regulation, in a bid to stimulate more trading volume and provide investors with more hedging instruments.

The move expands on the earlier removal of day-trading restrictions on constituent stocks of the Taiwan 50 Index and Taiwan Mid-Cap 100 Index, as well as publicly listed ETFs and stock warrants announced by the TFSC in June 2015.

As of the beginning of February 2016, the total number of securities listed on TWSE that are eligible for day trading rose to 907, up from 250 securities at the end of 2015, and accounting for approximately 98.75 percent of the value of total market transactions and 99.7 percent of market value.

TWSE also amended its operational rules governing day trades to allow borrowed securities to be used as collateral for any shortfalls arising from day trading.

TWSE also amended its operating rules to make more financial products available for lending.

The reformed Operating Rules for Securities Business Money Lending by Securities Firms mean more products can be loaned by brokers to investors and also expands the types of collateral that can be accepted as part of these loans.

Brokers are currently able to loan securities and commodities products such as TWSE-listed securities, general stocks listed on the Taipei Exchange and government bonds.

Under the new amendments, brokers are able to lend open-end funds, futures funds, applications for shares in companies scheduled to list as an IPO or secondary public offering (SPO) on TWSE or the Taipei Exchange, municipal bonds, corporate bonds, financial bonds and spot gold products.

All of these products will also be able to be used as collateral for loans except for the financing of IPO and SPO subscriptions for companies scheduled to list on the exchanges.

According to TWSE, the changes will enable brokers to offer more diverse services to investors who have been asking for more channels to access capital for investing in Taiwan's financial markets.

The four-week uptick rule in Taiwan was lifted in September 2015 after renewed market stability.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interests
come first…
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Taiwan's Financial Supervisory Commission prohibited the short selling of Taiwanese shares for less than the previous trading day's closing price on 24 August.

There was a 1.8 percent drop in market value immediately after the uptick rule was removed on 21 September.

Balances on loan also decreased by around 5 percent follow the rule's repeal.

Borrowing volumes dipped to within a few percent of their 12-month low on the day the rule was applied and rose to around 90 percent of the 12-month peak over the following two weeks, despite the uptick rule being in place.

A recovery of Taiwan's benchmark index, along with the US Federal Reserve's decision to maintain current interest rates and a general unwillingness by the new government in Taipei to maintain restrictive market conditions, were cited as key reasons for the rule's removal.

China expansion

Credit Suisse Founder Securities (CSF) received a business permit from China's Securities Regulatory Commission, paving the way for its expansion into the country.

The firm can now offer securities brokerage services in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone.

This is in addition to its existing capital markets activities, which include sponsoring and underwriting of A-shares, foreign investment shares, and government and corporate bonds.

CSF, founded in 2008 as the first Sino-foreign securities joint-venture company, is now one of the first joint companies able to offer securities brokerage services in Asia's biggest market.

CSF is 33.3 percent owned by Credit Suisse, with the remainder held by its partner Founder Securities.

Nicole Yuen, vice chairman for China and head of China equities at Credit Suisse, said: "Through our securities joint venture, Credit Suisse now joins the rank of a small select group of international banks which can provide onshore brokerage services to QFIIs, RQFIIs as well as mainland investors."

Aberdeen Asset Management is open to launching a securities lending operation in China after being granted a business licence.

The licence was offered to the Scottish investment firm during the UK chancellor George Osborne's visit to China as leader of a trade delegation in September 2015.

"We always look at new markets in relation to the assets that our funds are currently holding and the incremental revenues that can be generated from lending," commented Matthew Chessum, investment dealer at Aberdeen Asset Management.

"Securities lending is not something we would be looking at any time soon but we may consider implementing securities lending once the market develops if it is conducive to the activities on the investment portfolio."

Aberdeen can now operate under the State Administration of Industry & Commerce in China.

As a part of negotiations around the seventh UK-China Economic and Financial Dialogue, China agreed to allow qualified, locally-incorporated, wholly foreign-owned or joint-venture private fund management institutions to engage in private security management businesses, including secondary market trading of securities.

Chessum added: "There are a number of factors that we have to take into account as well as just the potential revenues involved in lending in new markets. We study the risk profile, including what's happening on the ground in the country as well as the overall liquidity and depth of the lending market in general."

"We would also look at any changes needed to existing processes. We find that our portfolio managers aren't overly willing to give pre-sale notification, which is needed in some of the newer Asian lending markets, such as Taiwan."

The announcement came during a week-long tour of UK ministers and leading UK business to China.

This continues the UK government's long-standing drive to forge greater links with the Asia Pacific region, and to consolidate London's position as the Western hub for renminbi business outside of Asia.

Aberdeen's chief executive, Martin Gilbert, said: "UK business cannot ignore the structural development of China. It is already the second largest economy in the world and will sooner or later surpass the US.

"The work undertaken to obtain a wholly foreign-owner enterprise licence is part of our overall strategy to ensure Aberdeen Asset Management is well placed for the next 10 to 20 years."

UK secretary of state for business Sajid Javid added: "As we deepen UK-China relations it is rewarding to see Aberdeen Asset Management licensed to operate in China. The company will bring fund management expertise from the UK to the second largest economy in the world. I am committed to building relationships like this between our two nations."

South Korea looks for partners

The Commodity Futures Trading Commission (CFTC) allowed certain South Korean Exchange (KRX) members to trade futures directly within the US market.

South Korean derivative dealers can now deal in products, such as KOSPI 200 futures, with their US counterparts without registering as futures commission merchants (FCM).

KRX said it expects US investors to increase the trading in the KRX futures market as South Korean member firms are able to solicit and provide information and infrastructure to US investors.

The petition to exempt KRX member firms from FCM registration was first logged in January 2009, and the South Korean Financial Services Commission sent a representation letter on information sharing to the CFTC.

The exchange now plans to allow its index options product to be legally accessible to US investors through relief by the Securities and Exchange Commission.

TWSE and Korea Exchange signed a memorandum of understanding to combine their ETF markets.

The two exchanges will also jointly compile indices, conduct market promotion activities and engage in bilateral visits to share experiences.

It builds on an earlier memorandum signed by the two exchanges and is part of an ongoing commitment by the two countries for cooperation.

Taiwan's ETF market has been growing at a fast pace, with total trading value exceeding NTD 1.47 trillion ($44.7 billion) between January and November 2015, equivalent to 7.13 percent of total trading value, compared to just 1.88 percent in 2014.

The exchange also launched a number of diverse ETFs that track international markets.

The South Korean financial authorities announced a development plan for the ETF market in October 2014 based on the deregulation of the listing and management of ETFs in order to further stimulate the ETF market.

The total size of the South Korean market reached a record high of KRW 21 trillion ($17.7 billion), 60 times its size in 2002.

Lee Sush-der, chair of the Taiwan exchange, said: "By focusing on indices and ETFs, this partnership will take advantage of the flourishing investment trend of global indexing. ETFs that track the Korean equity market will soon be available in Taiwan, and similarly, we expect ETFs that track the Taiwanese equity market will be launched on the Korean market in the future."

Choi Kyungsoo, chair and CEO of Korea Exchange, said: "Taiwan and [South] Korea are both 'Asian Tiger' economies."

"Not only do both markets share similar social, economic and cultural development experiences, the industrial structure of both markets also resembles each other."

Primed for growth

Scotiabank executives John Stracquadanio, Ramsay Carter and Kirtes Bharti tell Drew Nicol what the bank's growth plans are for the prime services business, and how Asian markets fit in

What has been Scotiabank's prime services strategy over the past few years for developing new regions across the bank's footprint?

John Stracquadanio: When we first began to expand our prime services business in select regions globally, we wanted to ensure that we created a global network that allowed our clients, in Canada and elsewhere, to have the same Scotiabank experience and receive the same level of service, regardless of where their underlying assets were actually domiciled.

We have grown our client base across Scotiabank's global footprint and we have reshaped our teams to create a solid team and infrastructure that is relevant and delivers high-quality service.

Are Scotiabank's securities lending and prime brokerage services part of your initial offering when entering a new region or does this come after traditional products are established?

Stracquadanio: At Scotiabank, securities lending and prime brokerage, either in a cash or synthetic form, continues to be a core product within our global banking and markets business. We approach our customers with advice and multi-product solutions aligned to their needs.

Our strategy involves complementing these products with other services and products such as agency equity execution. This can be done in partnership with our equity division or as a built in-house solution.

The securities lending and prime brokerage services are catalysts for our expansion in a region. They allow us to be consistent in terms of our locations, our behaviour toward inventory acquisition, securities lending and coverage of clients from a regional perspective. Although there are regional nuances, this allows us to be consistent in the way we serve our clients.

We tailor our products to be region-specific, while adhering to Scotiabank's business model. Although we aim to be as consistent as possible, there are some regional differences between our products in Europe, North America and Asia.

When we look at Asia and how it fits within Scotiabank's global footprint, we see the importance not only of having a clear understanding of the region, but how important it is to have an actual bricks-and-mortar regional presence. While our team in North America can explain the benefits of entering the Asian market to our clients, to effectively manage a global portfolio, it's extremely important to have subject matter expertise on the ground and supporting tools available within the region.

Everything is changing very rapidly, nowhere more so than Asia. Our mantra is 'start small, build out and deliver high quality service'.

How does the prime services team approach emerging markets and is there any correlation that allows products to translate between similar emerging regions?

Stracquadanio: Taking Latin America as an example, Scotiabank has had a longstanding traditional banking presence in the region. The assumption was that this would give our prime services business an advantage, however, it didn't immediately translate well into our other products due regional nuances.

In Latin America, investors generally do not use margin or securities lending extensively. The markets weren't ready for us.

It was challenging to create a product that worked for all of Latin America because each market is so different, and we have found this to be the same in Asia. You cannot have a broad-brush product like the one you could have for Europe or the US.

Once you understood the nuances of the Latin America markets, with mandatory CCP markets and less developed clients, were you able to apply those lessons to Asia?

Stracquadanio: There are similarities in terms of our approach to a developing legal and regulatory securities lending environment.

> *We see the importance not only of having a clear understanding of the region, but how important it is to have an actual bricks-and-mortar regional presence*

John Stracquadanio
Global head of prime services,
Scotiabank

But it is not as easily transferred as one might think. A product for Peru couldn't be translated for Indonesia, or even Colombia. These markets are customer-driven and each is unique.

Ramsay Carter: At the same time, the use of mandatory central counterparties (CCPs) in Latin America has actually helped us better understand the risk in these lesser developed markets.

That is where there is a correlation between Asian and Latin American markets.

What was Scotiabank's prime services strategy when pushing into Asia?

Carter: Scotiabank has been present in Asia in many forms over the past 50 years, so it is not a new geography for us.

Regarding our prime services offering in Asia, we have spent the last few years ensuring that we have the right mix of talent and product, supported by strong infrastructure, so we are confident in our offering and have room to grow.

We have particularly focused on ensuring our expansion is strategic and that it fulfills both client and shareholder needs.

From a broader equity perspective, Scotiabank is truly global in terms of our knowledge and coverage in key industries, such as energy and infrastructure and we will continue to focus on these strengths.

Our initial market focus was on Singapore and other developed markets in Asia.

Now that we have established ourselves in these markets, we are looking to further expand our geographic suite across Asia.

In Asia, we offer a focused and disciplined product, bordering on a boutique approach. We are a financing solution that resonates very well with a lot of the global funds, although we have also had success with Asia-based funds.

To keep developing the range of our products, we are also stepping up our dialogue with Canadian investors who are looking to Asia.

There are several large and well-known Canadian pension funds with a global presence, but also many smaller investor pools that are looking for opportunities on portfolio diversification.

> *“We have spent the last few years ensuring that we have the right mix of talent and product, supported by strong infrastructure”*

Ramsay Carter
Regional head of prime services, Asia Pacific, Scotiabank

How important is Asia to Scotiabank as a market?

Kirtes Bharti: For securities lending, we see ourselves as a niche provider. We value our relationships with other prime providers and have always been relatively collegial. We are not trying to take market share, but to build our own business on a steady basis. We do not focus on mass volume, but on creating a niche for ourselves.

For example, there are certain Canadian managers who can only lend to Canadian entities, and not all global banks have Canadian entities. This provides us a niche opportunity.

At the same time, we are fully aware that the developed markets in Asia are well covered already, therefore, we are looking for opportunities in emerging markets, such as South Korea and India.

> *"For securities lending, we see ourselves as a niche provider. We value our relationships with other prime providers and have always been relatively collegial"*
>
> **Kirtes Bharti**
> Co-global head of securities lending
> Scotiabank

South Korea is a good example. Managing the mandatory intermediary CCP model is more complex for those less experienced entities in that market than for us.

Thanks to our experience building Latin American products, we were able to adapt products to operate in South Korea without having to start from scratch.

Turning to India, the offshore securities lending activity is limited. We have taken it upon ourselves to explore this untapped market.

We are ahead of the curve in terms of being fully compliant with Basel III, which makes the process easier. We believe that some of our colleagues in the industry will choose to shy away from these emerging markets due to Basel III-related liquidity considerations.

In India, the securities lending framework is unique compared to the rest of Asia's frameworks, it is not widely utilised by onshore or offshore participants. We see accessing India securities lending is a niche where we can leverage our Latin American experience to our advantage.

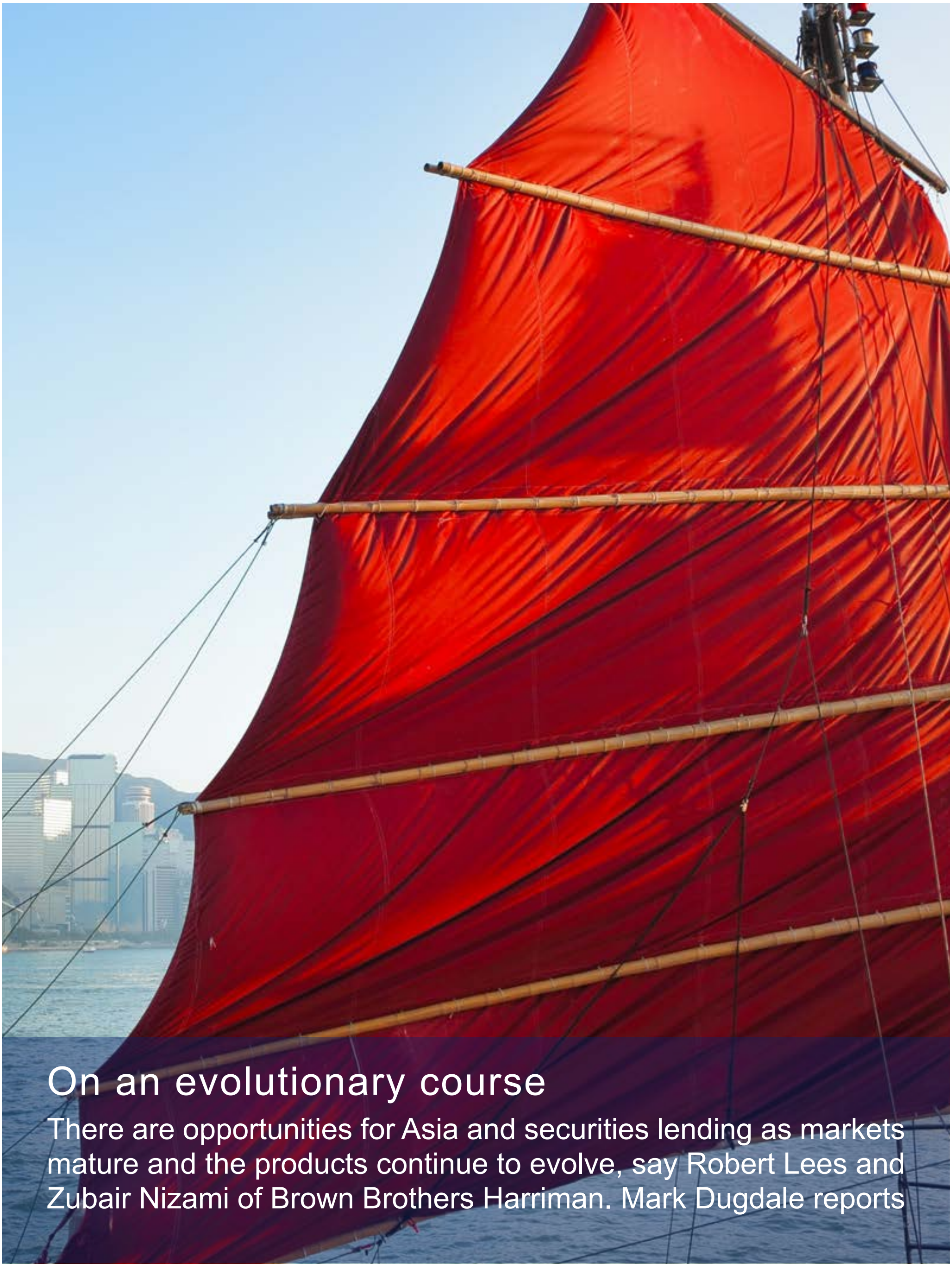
Has there been any pushback from regulators of emerging markets on the launch of a securities lending market, due to its short selling connection?

Bharti: From our experience, we see Asian regulators as being very open and transparent on how they conduct themselves. Within all the emerging markets, retail investment is significant. In South Korea and Taiwan, it can be as much as 70 to 80 percent retail flow.

We recognise one of the regulator's priorities is to protect its home investors. Short selling certainly has a negative perception, but at the same time, Asian regulators in our experience certainly appreciate it's a very important component of building capital markets.

At times they have had to be conservative and implement some rules that differ from how developed markets operate.

Associations such as PASLA are constantly engaging in dialogue with regulators to refine best practice and cultivate a framework that promotes the practice of securities lending and short selling in a fair and regulated environment. **SLT**



On an evolutionary course

There are opportunities for Asia and securities lending as markets mature and the products continue to evolve, say Robert Lees and Zubair Nizami of Brown Brothers Harriman. Mark Dugdale reports

You have a global lending presence, but how do you view Asia in terms of the global landscape?

Zubair Nizami: Asia is a really important part of the global lending landscape. Demand levels are at historic highs, and we are seeing more and more opportunities for our clients with Asian assets. Developments such as the Hong Kong-Shanghai Stock Connect should only help this, and although it may take time to reach its full potential, it represents a great opportunity for beneficial owners.

Robert Lees: The region has always been strategically important to us from a securities lending and firm-wide standpoint, but over the last three years we've seen incredibly strong growth, which supports our decision to put more resources into the region. Having strong local connectivity to complement our well-established Asian trading presence is a priority for us—it's our job to ensure our clients can take part in new revenue opportunities as they unfold. As a long-term specialist intrinsic value lender, our strengths play very well to the opportunities available in Asia and that bodes well for our clients.

We are also excited about the impact of the long-awaited mutual recognition of funds (MRF) programme. While progress has been a little slow since its launch, momentum is growing as an increasing number of managers begin to investigate the benefits of MRF. As of 6 January 2016, three Hong Kong funds and 23 Chinese funds have received regulatory approval under the MRF scheme. This is a positive long term development for the region.

You mentioned Stock Connect as an opportunity for beneficial owners—how far are we from China developing a lending model?

Nizami: The inclusion of A-shares in global benchmark indices is fundamental to the development of offshore lending. FTSE has already begun to add A-shares to some global benchmarks, while MSCI commented in June 2015 that further liberalisation of Chinese capital markets would be needed to support the addition of A-shares to the emerging markets benchmark. Index providers are taking a measured approach, but A-share securities financing is expected to grow considerably over the longer term as both index providers and offshore investors increase their exposure to China. We expect a scalable offshore lending model to emerge in the next two to five years as overseas institutions increase their A-share holdings and China's regulatory priorities shift back towards further market liberalisation.

What are the biggest considerations when engaging in lending in Asia?

Lees: From a day-to-day perspective, we interact with our clients and borrowers in Asia the way we do anywhere else. But at a macro level, the individual markets in Asia can vary greatly in terms of their development and operating models. Some markets have unique rules and regulations, particularly around short selling, trade settlement fails and operational frameworks, all of which will require a deep understanding of how they could impact on a lending programme. While the varying degrees of development and complexity require careful navigation, that makes for an exciting time in the region in terms of growth and potential revenue opportunity for beneficial owners.

The regulatory landscape sounds complex—how do you manage this level of disparity?

Lees: It's true it can be complex, but it's important to keep in mind that the regulatory landscape is evolving. We are seeing markets mature and develop their onshore and offshore frameworks over time. It's also worth mentioning that this is an issue that goes beyond Asia. Regulators globally have reacted to market volatility to varying degrees and restrictions have not always remained in place once the broader implications are evaluated.

Looking at the bigger picture, we actually feel the regulatory tides are beginning to turn a little, as policymakers have begun talking about growth, liquidity and choice. At the start of February 2016 in fact, the Taiwan Stock Exchange (TWSE) announced it will allow unlimited day trading for all securities eligible for margin trading and short selling. This applies to almost all stocks, exchange-traded funds (ETFs) and warrants listed on its market. The

expansion itself is exciting, but the 'why' is of just as much interest. In its statement, TSWE highlighted the driver of change was to increase choice, in this case through more hedging instruments, and to deliver increased trading volume.

We see this as a positive step forward and recognition of how securities lending activity is vital for market liquidity and investor choice and the role that plays in efficient capital markets.

So, given the evolution of lending markets in Asia, do you expect the region to play a bigger part in the global lending landscape going forward?

Nizami: Asia is a really exciting, forward looking region and the regulatory landscape will undoubtedly continue to evolve, with markets opening up more as they reach maturity. It has

"We feel the regulatory tides are beginning to turn a little, as policymakers have begun talking about growth, liquidity and choice"

Robert Lees
Co-head of securities lending, EMEA, and
global co-head of securities lending trading, Brown Brothers Harriman

been a strong start in Asia, with robust lending returns in Hong Kong and South Korea, mainly as a result of concerns related to economic slowdown and exposure to China. These are long term macroeconomic trends that will likely remain for a while and demand levels are likely to go from strength to strength.

Lees: We see two key trends intersecting with the securities lending industry.

These will drive significant structural change, benefiting asset managers not just in Asia but across the globe, too.

First is the greater demand for transparency at all transaction levels, including securities lending. Technology will play a big role in providing this transparency and so it will be important for the industry to adapt and evolve to meet these needs.

Second is the broader 'active versus passive' debate in the investment industry. We are beginning to see significant changes in sentiment towards securities lending, with many ETF and passive fund providers not only engaging in securities lending, but supporting it. For a growing number of institutional investors, the possibility of offsetting fees with lending revenues is an increasingly attractive opportunity.

With different dynamics at play, we believe there are real opportunities for Asia and securities lending more broadly as markets mature and the product continues to evolve. It's a great time to think creatively about how you can engage in new ways. **SLT**

The views expressed are as of 12/02/15 and are a general guide to the views of BBH. The opinions expressed are a reflection of BBH's best judgment at the time this interview was recorded, and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. Neither BBH nor its affiliates provide legal or tax advice. Nothing contained herein is intended as a recommendation to buy or sell any security, or to invest in any particular country, sector or asset class. BBH is not affiliated with Securities Lending Times.

"The inclusion of A-shares in global benchmark indices is fundamental to the development of offshore lending"

Zubair Nizami
Head of global securities lending trading, Asia Pacific,
Brown Brothers Harriman

Globally assured satisfaction

The key to new markets is always fully investigating and understanding them, says David Martocci of Citi. Drew Nicol reports

What has Citi's experience been in emerging markets recently?

We look at everything from the standpoint of what is best for our clients' assets and their allocation. We are always looking to expand this aspect of our business and we think our experience in this arena is what differentiates us from others in the market.

Having a viable franchise, which means having tangible assets and the right people on the ground, enables us to develop and grow our emerging market business quickly and with confidence.

Our clients see that and appreciate it both through increased revenues but also through the way in which we manage risk in these markets.

Has the recent market turmoil in Asia affected your strategy in emerging markets?

We haven't seen any pullback from our client base at all. Our clients are still very willing to participate in lending and generate the substantial additional revenues that are available through our securities lending offering in these markets.

If you look at the sell-offs in China, this is not an institutional securities lending market yet, it only operates in the local broker-dealer world. Volatility in the Chinese market does however impact on Hong Kong, which has always been a major market for us.

What have you had to do to reassure your global clients that Asia is a viable investment option for them?

Our thorough process in opening new markets and educating our clients accordingly ensures that the programme we operate is well understood. With that in mind, clients develop trust and confidence and this is reflected in the growth we have seen in our programme in Asia as well as Europe and the Americas.

How do the emerging markets in Latin America compare to Asia?

The number of viable markets in Latin America is smaller than in Asia. That said, Brazil is still a very lucrative market for lenders and we are seeing increasing volumes and activity there. The challenge with Brazil as an emerging market is the required securities lending structure which utilises a central counterparty (CCP) market model.

Securities lending clients have become accustomed to receiving full title transfer of collateral, which provides them with significant comfort, so models that rely on a CCP structure result in a lower take-up from beneficial owners. It is also worth noting that other investors, such as '40 Act funds, are also excluded by regulation because of this.

India is a market that some are looking at. Is that the case for Citi?

Citi launched India as a lending market in 2012 but it has only attracted domestic funds to date. We are now developing capabilities to encourage offshore participation. There has been a lot of time and energy spent on it, but we are Citi, so we have the people on the ground. We are looking at Q2 2016 as the date to launch offshore lending.

Is Citi really looking at all possible markets at the moment? Do you see genuine opportunity everywhere?

There are a lot of markets where we have worked with the regulator and found there to be no real opportunity. Everyone is looking for ways to add liquidity to their capital markets but that isn't always possible.

It is important to find the right balance in a market between investors' willingness to gain exposure in the market, borrowers having sufficient appetite for the local infrastructure and regulations being viable.

We make sure that we have always fully investigated and understood the viability of the market, by working through all the issues. There are tax, regulatory, process and transactions components to consider. It's an in-depth process we have to go through before launching in any new market.

As Asia develops and begins to move out of the 'developing market' phase, where is next for Citi? What frontier markets are you looking at?

We are exploring many opportunities in the frontier space. With Citi's coverage globally, we can leverage local expertise and relationships with exchanges and regulators. **SLT**

> *"Clients develop trust and confidence and this is reflected in the growth we have seen in our programme Asia as well as Europe and the Americas"*

David Martocci
Global head of agency securities lending, Citi

Asian markets continued their growth trend in 2015

Chris Benedict of DataLend drills deeper into Asian market trends to review the areas that are driving revenue growth in the region

The securities lending markets experienced mixed results from a revenue perspective in 2015. Securities lending revenue generated by Asian markets rose from approximately $1 billion in 2014 to more than $1.4 billion in 2015. North American revenue also experienced positive growth in 2015 as gross revenue grew by 21 percent. At the same time, European securities lending revenue was down approximately 12 percent year over year. DataLend drilled deeper into these trends in the Asian markets to review the areas driving the revenue growth in the region.

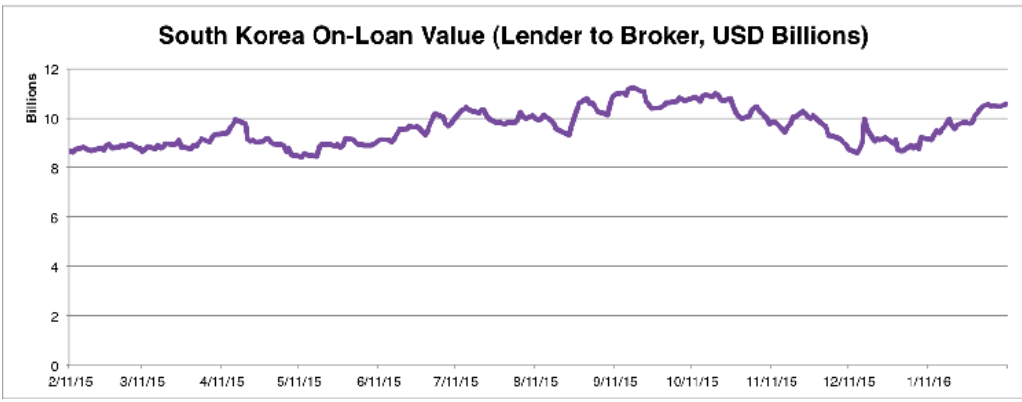
Japan has long been an established market in securities finance and had a substantial average daily on-loan balance of $66 billion for 2015. However, annual average fees for the market were approximately 47 basis points (bps), which were fairly cool relative to the region. The Japanese lending market consists of both equities (average of $49.04 billion) and fixed income (average of $17.29 billion) on loan. Two of the top performers in Japan were electronics firm Sharp and specialty retailer Sanrio. Combined, these two names produced approximately $35 million in gross revenue in 2015. We wait to see what impact, if any, the Bank of Japan's recent move to negative interest rates will have on the market.

Australia was also a fairly substantial market in terms of size, with an average on-loan balance of just under $26 billion last year. Fees to borrow Australian assets were among the lowest in the region, averaging around 35 bps for the year. Mining company Fortescue Metals Group was the largest securities lending earner for Australia in 2015, grossing revenues of a little over $20 million.

Hong Kong had another great year in the securities lending market. Loan balances grew from a little over $26 billion in January to a peak of $37 billion in May of 2015. Fees to borrow Hong Kong equities averaged a very warm 182 bps for the year, hitting a high of 284 bps in early April.

Three of the highest revenue generating securities in Asia came from Hong Kong: renewable energy company Hanergy, property developer Evergrande and farming company Huishan Dairy. These three companies were responsible for almost $234 million worth of securities lending revenue last year.

South Korea also saw solid growth last year with on-loan balances starting 2015 at $8.1 billion and hitting a peak of $11 billion in September, averaging around $9.5 billion for the year. Fees for the market



Most Profitable Names in Asian Securities Finance 2015

	Security	Sector	Country
1	HANERGY TFP	Semiconductors	Hong Kong
2	CELLTRION	Pharmaceuticals	South Korea
3	EVERGRANDE	Real Estate	Hong Kong
4	DAUM KAKAO	Software and Services	South Korea
5	HUISHAN DAIRY	Food, Beverage & Tobacco	Hong Kong
6	FORTESCUE METALS GROUP	Metals and Mining	Australia
7	SHARP	Consumer Durables & Apparel	Japan
8	SANRIO	Retailing	Japan
9	MIXI	Software and Services	Japan
10	CRRC	Capital Goods	Hong Kong

also saw significant growth, starting the year at 220 bps to hit a peak of 334 bps in July with a yearly average of 292 bps, putting it among the hottest in the region.

Notable South Korean revenue earners included pharma company Celltrion and software firm Daum Kakao. These two names alone made approximately $98 million in securities lending revenue in 2015.

Singapore also experienced solid overall growth in 2015 as balances rose from $2.6 billion early last year to approximately $4.1 billion in early 2016. Fees to borrow Singaporean assets averaged around 107 bps, hitting a high of 149 bps in November. Singapore shipping company Sembcorp Marine was actively traded last year, with lending revenues coming in at $11.6 million.

On-loan balances for Taiwan continued the growth trend exhibited by much of the region as balances increased from a little under $7 billion to $8.4 billion at the end of December 2015. Fees to borrow Taiwanese assets averaged 169 bps for the year. Hardware and electronic components company Acer was the most profitable security on loan for Taiwan last year, generating revenue of $8.16 million.

The remaining countries in Asia saw a combined average daily on-loan balance of $4.77 billion last year, with fees averaging around 122 bps. Securities lending activity in Asia continues to contribute a significant percentage of revenue to a global lending programme.

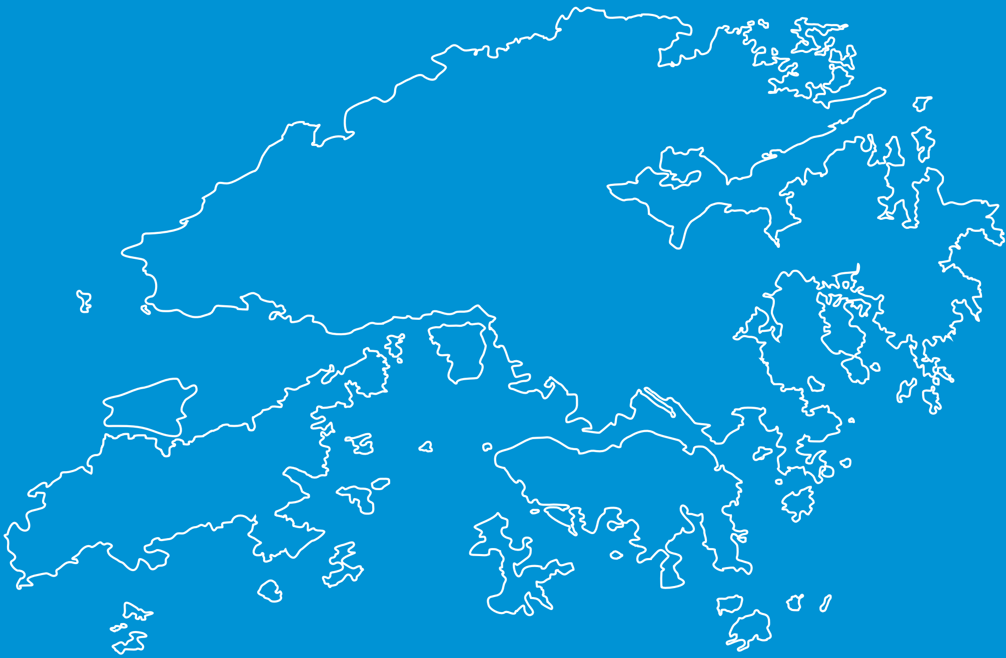
We look forward to continuing to monitor growth in Asia as new markets are explored. **SLT**

“Securities lending revenue generated by Asian markets rose from approximately $1 billion in 2014 to more than $1.4 billion in 2015”

Chris Benedict
Director, DataLend

Asia's assets

DataLend highlights the key securities finance metrics of Japan, Hong Kong, Taiwan, Singapore and South Korea



Hong Kong

On-loan value: US $27.07 billion

Lendable value: US $280.8 billion

Average fee: 181 bps

Utilisation: 9.64 percent

Japan

On-loan value: US $66.88 billion
Lendable value: US $585.48 billion
Average fee: 46.79 bps
Utilisation: 11.42 percent

Singapore

On-loan value: US $3.81 billion
Lendable value: US $40.4 billion
Average fee: 107.66
Utilisation: 9.43 percent

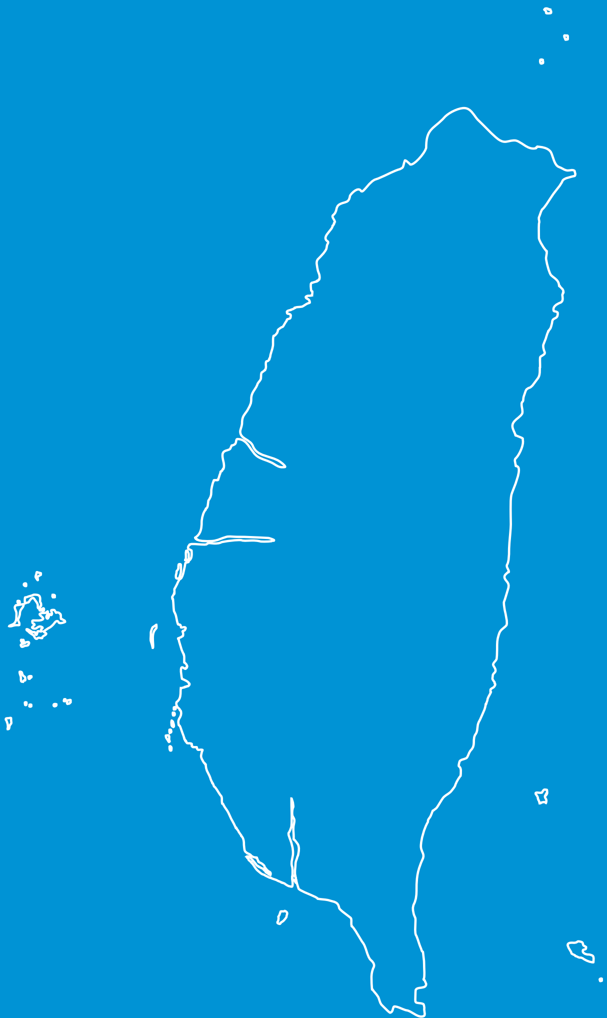
South Korea

On-loan value: US $9.63 billion

Lendable value: US $91.19 billion

Average fee: 295.8 bps

Utilisation: 10.56 percent



Taiwan

On-loan value: US $8.54 billion
Lendable value: US $44.78 billion
Average fee: 169 bps
Utilisation: 19.07 percent

Asia versus the world

Asia

On-loan value: US $147.01 billion
Lendable value: US $1.34 trillion
Average fee: 97.06 bps
Utilisation: 10.98 percent

Europe, the Middle East and Africa

On-loan value: US $477.38 billion
Lendable value: US $3.63 trillion
Average fee: 32.91 bps
Utilisation: 13.14 percent

North America

On-loan value: US $1.05 trillion
Lendable value: US $8.13 trillion
Average fee: 38.4 bps
Utilisation: 12.90 percent

All data sourced from DataLend, 10 February 2015 to 10 February 2016

Navigating complexity

Flexibility, technology and risk management are all necessities for conducting business in the Asian securities lending marketplace, says Dane Fannin of Northern Trust. Mark Dugdale reports

What are the common characteristics of successful securities lending programmes in Asia?

Three aspects in particular stand out: firstly, a flexible programme to ensure the agent lender remains adaptable in what is an ever-changing market environment, allowing the appropriate responsiveness to capitalise on idea generation and align parameters with evolving client needs. Given Asia's rapidly evolving market landscape, agent lenders must remain proactive, continuously repositioning their business, and ready to execute on emerging opportunities for clients.

Secondly, dynamic technological capabilities are a necessity to facilitate change and drive increased efficiencies in the pursuit of automation. The latter is particularly relevant in Asia from a trading perspective, where an investment in trading automation unlocks significant value for clients in allowing traders to focus their efforts on 'special' securities and idea generation.

Thirdly, a robust risk framework is paramount to securities lending in Asia, given the complexity in market structures and the risks this presents in respect to operations and liquidity management.

How does the market in Asia differ from the US or Europe?

The most striking difference is in the comparison of maturity profiles. While the US and Europe are relatively developed securities lending markets with limited growth potential, Asia boasts an impressive landscape of untapped emerging and developing markets with attractive revenue profiles, such as China and India.

However, Asia's less mature configuration carries the burden of being comparatively more cumbersome in execution from a trading perspective, given a lack of commonality in framework and regulation across markets in the region.

Notably, clients shouldn't forget that often it is the lack of standardised frameworks that present the most compelling opportunities in Asia, hence the value in agent lenders having the means to navigate these complexities accordingly.

What sort of returns are possible in Asia?

Returns are generally expected to be greater in Asia relative to other global hubs, because of both structural and market factors. On the structural front, Asia is inherently a riskier jurisdiction for participants. The risk is largely derived from the punitive settlement regimes and the structures in which numerous markets operate, which typically constrains liquidity in supply.

As such, expected returns are generally higher and are usually in comparatively higher spreads at the security level.

From a market perspective, there continues to be significant end-user demand for exposure to the Chinese economy, and in the absence of a viable means to transact securities lending onshore, flows typically take place in those Asian economies with direct or indirect economic ties to China, such as Australia, Hong Kong, Malaysia, South Korea and Taiwan. Our expectation is that this will continue to be the case, which should drive healthy revenue streams for clients invested in those markets.

What types of collateral are Asian asset owners typically demanding in exchange for their securities?

Asian clients remain sophisticated in outlook and willing to partner with those agent lenders able to offer a keen working relationship to drive their securities lending programmes forward by being adaptable to changing conditions and requirements.

Our experience is that clients want to engage directly and understand where the next opportunity or development is coming from. Securities lending is not merely a custody 'add-on product', it is an independent and strategic business that forms a critical part in helping clients achieve their performance goals.

Finally, how has the market changed in recent years?

The most notable change has been one applicable to the securities lending business globally, derived from the implementation of regulation, particularly Basel III. Under its application, equity finance desks have increasingly been used as the vehicle to manage balance sheet efficiencies and achieve liquidity targets, inducing the need for borrowers to fund themselves on an increasingly longer-term basis. This has presented new trading opportunities for agent lenders and has tasked the business with thinking about the maximisation of inventory quite differently, essentially in a more strategic and proactive manner.

The other important change in Asia has been the development of the offshore securities market for China, notably the Shanghai-Hong Kong Stock Connect scheme. While the securities lending and short selling rules within the scheme remain entirely unworkable in practice, it has been an important milestone for the development and liberalisation of the Chinese market. The speed of its development is also a stark reminder of the pace at which China is able to implement change, and participants remain optimistic for further change that could potentially open up a significant opportunity for the market. **SLT**

"Asia boasts an impressive landscape of untapped emerging and developing markets with attractive revenue profiles"

Dane Fannin
Head of securities lending, Asia Pacific, Northern Trust

Follow the leader

The future of securities borrowing and lending in Asia relies heavily on China, says Francois Maury of Natixis. Mark Dugdale reports

How would you describe securities lending business in Asia over the past year?

The securities lending business has been relatively lackluster over the past year. We see a few main trends having a material impact. The overall compression of margins in a world of high liquidity is not favourable, while the hedge fund world appears to have struggled in the second half of 2015, particularly smaller funds that strive to differentiate themselves to keep the interest of investors.

On the other hand, the second part of the year provided opportunities on very select names and exchange-traded funds (ETFs), especially on those tracking China. However, most clients remained on one side only, and unwinding/de-risking was the prevalent mood.

How far have the markets progressed in terms of development?

The widely anticipated opening of China's stock lending market didn't materialise in 2015. To a lesser extent, we could say the same about Taiwan's efforts. We believe, however, that the positive direction towards a more open environment is making significant inroads and hope to see further progress in 2016.

Japan is resisting to a certain extent in this volatile environment and, indeed, we find that clients occasionally forget that it is still a tremendously big, albeit not 'exciting', market.

What's in store for the future?

As does the overall economy of Asia, the future of securities borrowing and lending relies heavily on China. Indeed, the pressing question is whether we are going to see the emergence of a securities borrowing and lending market on the mainland.

Furthermore, clients are looking at Thailand, Indonesia and Malaysia.

We believe interest for those Southeast Asia economies will progressively deepen as the various foreign exchange regulations loosen. However, we anticipate this to be a slow evolution.

Meanwhile, enthusiasm for Taiwan seems to be wavering as the securities borrowing and lending market failed to materialise in 2015, as many clients expected.

How healthy are Asia's equity markets?

The health of equity markets is essential to the securities borrowing and lending business. We need end-user clients, such as hedge funds and asset managers, to be active and successful in their trading to be the catalyst for securities lending markets.

Furthermore, a lack of liquidity and light volumes do not favour the securities borrowing and lending markets We also believe that unhealthy market valuations are not conductive to the long term development of our businesses.

Beyond liquidity, depth and market valuation, the securities borrowing and lending business requires healthy legal, regulatory and fiscal environments. There are complex legal environments in Asia, while stamp duties are another form of unfortunate restrictions to the business.

What is your opinion on Asian economies' links to China?

It is a relative disadvantage, as non-Asian investors and clients often lack the breadth to focus on smaller economies, where we believe there could be interesting opportunities for them. Also, the flows are massively macro-driven, with monetary policies playing a major role and somehow swamping more local factors.

If we dig further, we can observe a pattern; local investors are focused on their own markets but very few are going into other Asian markets. Asia, in that respect, displays very little unity.

The link to China benefits the small number of sophisticated cross-border sellers in Asia (outside of Japan) because most of the sectors are somehow linked to the Chinese economy. This explains the short selling of sectors across Asia, such as the recent action in the commodities markets. In other words, excluding Japan, many Asia Pacific markets have benefitted from the Chinese market. Australia is a clear example.

The link does not favour autonomous development of smaller Asian markets, and sometimes penalises local long-term investors.

From our perspective, this is not a positive environment and it is unlikely to change rapidly. One rebalancing factor for the longer term could be the expansion of India.

Volatility is tipped to continue in Asia. How will this play out over the next 12 months?

Overall, global equity markets have been expensive. Indeed, equities are very much in a bull market, so it is therefore not surprising to see it undergo a correction. However, given the steep losses so far, it will take some time to recover, so I expect some volatility in the first half of 2016 and improvements later in the year.

We need further transparency before the uncertainty will subside, including on US Federal Reserve interest rate decisions, the Bank of Japan's path to reach its inflation target, and Chinese growth. As decisions unfold and clarity sets in, a relief rally in the second part of the year is a plausible scenario. **SLT**

> *"The pressing question is whether we are going to see the emergence of a securities borrowing and lending market on the mainland"*
>
> **Francois Maury**
> Head of equity finance Asia, Natixis

Shorting me, shorting you

A world-class financial centre is getting better, although a certain Stock Connect is disappointing securities lending participants. Mark Dugdale reports

Hong Kong's position as the fee-generating securities lending jurisdiction of Asia was cemented in 2015 after another positive year, despite the volatility that struck Asia's economies.

According to DataLend, fees to borrow Hong Kong equities averaged a very warm 182 basis points (bps) for the year, hitting a high of 284 bps in early April. The jurisdiction was only eclipsed by South Korea in this regard.

The jurisdiction has also made moves to modernise its securities lending capabilities, as risk-averse foreign investors rely more and more on the the 'developed' financial services centre that is Hong Kong. Indeed, HSBC, caught between a rock and a hard place in January 2016, had to decide whether to keep its headquarters in London or move to Hong Kong, which it put on a par with the UK capital, describing them both as "world-class financial centres with high quality regulatory regimes capable of hosting a global systemically important bank such as HSBC". HSBC opted to stay in London, but the fact that Hong Kong was a viable alternative is impressive in itself.

In terms of securities lending, Hong Kong's Securities and Futures Commission (SFC) proposed expanding the scope of short position reporting to all securities eligible for short selling on the Hong Kong Stock Exchange in November 2015, in a bid to increase transparency.

Under the proposed changes, which were put out for consultation and not finalised at the time of writing, short position reporting will be extended to all 889 designated for short selling, which currently accounts for 44 percent of activity in Hong Kong.

At the time of writing, 127 stocks were subject to short position reporting. The SFC anticipates that expanding coverage to all designated securities will reveal aggregated short positions of more than HKD $100 billion (USD $12.9 billion).

Ashley Alder, CEO of the SFC, commented at the time: "We have seen growth in short selling since the short position reporting regime was introduced in 2012. The expanded regime will help improve monitoring and enhance market transparency, and this will be conducive to the long-term development of the industry."

This bid for increased transparency can perhaps be traced back to securities lending's reputation in Asia, where it continues to suffer, according to some market participants. Many stocks in Hong Kong cannot be short sold at all, which can limit the utilisation rate of a long portfolio.

Also disappointing as far as Hong Kong is concerned is the progress of the Hong Kong-Shanghai Stock Connect, which, despite launching to much fanfare, still lacks an active securities lending market and any short selling.

"This bid for increased transparency can perhaps be traced back to securities lending's reputation in Asia, where it continues to suffer, according to some market participants. Many stocks in Hong Kong cannot be short sold at all, which can limit the utilisation rate of a long portfolio"

A spokesperson for Hong Kong Exchanges and Clearing (HKEX), in response to the assertion that the framework for securities lending via Stock Connect is too restrictive, comments: "One of the principles of Stock Connect is 'home rules apply' so mainland short selling rules apply to northbound trading through Stock Connect. HKEX has reflected the views of its market participants to its relevant mainland counterparts and will continue to do so."

Hopes remain high for Stock Connect, not least because it could open up China to foreign borrowers and lenders keen to cash in on the country's stellar, although stuttering, growth. Until then, Hong Kong will continue to be seen as a proxy for China. **SLT**

Failure's not an option

Japanese securities lending clients require operational excellence, according to Paul Wilson of J.P. Morgan. Mark Dugdale reports

What is the attitude to securities lending in Japan?

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

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

Clients in Japan have the usual agent lending requirements. They 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 that the risk profile has on those returns. We see a definite preference for non-cash collateral types from clients in Japan. 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 for 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. Certainly, the ongoing investment into our online securities lending dashboard and data analytics reporting suite puts our reporting capabilities at the forefront.

Are you seeing any particular trends?

We are seeing asset owners increasing their allocation to global assets, meaning we see an increase in outbound investment and a corresponding reduction of the allocation to Japanese domestic assets.

From this we have 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 the capital cost of the agent lender are crucial to success in such a strategy.

We also notice a shift towards 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, Taiwan and South Korea.

What do clients in Japan value about J.P. Morgan's programme?

Our clients in Japan tell us 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 the shortest timeframe.

Furthermore, our clients in Japan look to deal with counterparts of the highest financial strength, and so the quality of the indemnification that J.P. Morgan provides to agent lending clients comes up time and again as a reason they choose to work with us.

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

What about the recent expansion of your agent lending team in the Asia Pacific region?

With the pickup in interest in agent lending and continued growth in our clients' lendable assets in Japan, we have established a 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 J.P. Morgan's outlook for 2016 and beyond?

We expect to see a continuation of the shift in asset allocation to global ex-Japan investments as asset owners and institutional investors are set on a course to reduce their domestic asset allocations. To some extent, this has a flow-on effect to interest in lending and we expect to see continued growth in agent lending for Japan clients.

What else is going on in Japan?

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

"Clients require agents to minimise failed trades and will often have a reporting requirement, or ethos to 'match to the yen'"

Paul Wilson
Global head of agent lending product and portfolio advisory, investor services, J.P. Morgan

Be ASEAN you

Agent lenders are continually enhancing their collateral profiles in Singapore as non-cash becomes more acceptable, says Kirtes Bharti of Scotiabank

Around the world lenders are back to pre-crisis levels of supply, but demand from hedge funds seems to be lacking. Is this the case in Singapore?

Singapore supply has outstripped demand recently. In general, we see hard-to-borrow demand associated more with corporate events and capital raise issuance.

The potential attractiveness and benefits of alternative collateral types are, in essence, easy to understand.

However, we appreciate that there are challenges for beneficial owners, agent lenders and borrowers when implementing sustainable technology and risk metrics to manage collateral profiles efficiently.

“The ASEAN markets are experiencing a reduction in global balances as some flows move to more developed markets outside of Asia”

Kirtes Bharti
Global co-head of securities lending, Scotiabank

Our sense is that quantitative strategies are minimal and long/short strategies are well serviced via existing supply provided by agent lenders.

With Asia still developing in terms of securities lending, the region has a lot of potential lenders—is oversupply an issue?

We currently do not see oversupply as a concern.

Furthermore, we think oversupply can be considered positive, as new supply creates efficiencies and can, in some cases, mitigate short squeezes, although these are rare occurrences.

The diversification of supply is also equally important to help borrowers and lenders manage risk, including credit risk, concentration risk and many other types of risk driven by internal bespoke metrics.

How ready are lenders to accept different assets as collateral? Or is cash still the most attractive, given reinvestment strategies?

Agent lenders are continually enhancing collateral profiles. In Singapore, we have seen agent lenders accept equity and debt instruments as well as cash.

Oversupply is positive as it leads to additional collateral profiles to suit different participants.

Are ETFs being lent in Singapore? Could this be on the rise?

Exchange-traded funds (ETFs) are available in Singapore. There are 20 to 25 options available to trade via the Singapore Stock Exchange. These ETFs are typically tracking global indices as well as country-specific indices.

Borrows are available although demand does not appear to be significant. This could be attributed to the liquidity of the Singapore-listed ETFs rather than investment linked decisions.

How far behind Singapore are markets such as South Korea and Indonesia?

Singapore is a sophisticated and mature market. It is neither behind nor ahead of any markets, it is just different.

As each jurisdiction has a different profile, right now, the Association of Southeast Asian Nations markets are experiencing a reduction in global balances as some flows move to more developed markets outside of Asia. **SLT**

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BondLend is a securities finance technology platform created specifically to support the fixed income borrowing, lending and repo community. BondLend's trading and financing services provide straight-through processing automation for borrowing, lending and repo using a common standards-based protocol and infrastructure processing eliminating manual processes, freeing up valuable resources.

BondLend comparison services add efficiency and reduce the risk of potential collateral management errors. Comparison services are security type agnostic and support global usage for cash and non-cash records. BondLend's trading and post-trade services help drive down unit costs and increase efficiency. It allows firms to free up resources to expand their market presence, increase trading volumes, and reduce error rates all without additional cost.

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DataLend is the securities finance data services division of EquiLend, providing the market with global data across all asset classes.

This offering extends EquiLend's position as the standard of excellence in the securities finance industry.

DataLend builds on EquiLend's strengths in technology and benefits from its economies of scale. EquiLend, as a regulated trading platform, is a trustworthy repository for sensitive securities finance data.

Our innovative approach enables our clients to have a direct hand in shaping the evolution of the securities finance industry by producing market data that is best suited to serve the needs of industry participants.The DataLend mission is to be the leading provider of securities finance market data.

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EquiLend is a leading provider of trading services for the securities finance industry.

EquiLend facilitates STP by using a common standards-based protocol and infrastructure, which automates formerly manual trading processes. Used by borrowers and lenders throughout the world, the EquiLend platform allows for greater efficiency and enables firms to scale their business globally.

Using EquiLend's complete end-to-end services, including pre- and post-trade, reduces the risk of potential errors. The platform eliminates the need to maintain costly point-to-point connections while allowing firms to drive down unit costs, allowing firms to expand business, move into different markets and increase trading volumes, all without additional spend. This makes the EquiLend platform a cost-efficient choice for all institutions, regardless of size.

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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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Natixis is the international corporate, investment, insurance and financial services arm of Groupe BPCE, the second largest banking group in France with 35 million clients spread over two retail banking networks, Banque Populaire and Caisse d'Epargne.

With more than 16,000 employees, Natixis has a number of areas of expertise that are organised into three main business lines: corporate and investment banking, investment solutions and 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 31 December 2015

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Leveraging superior investment management capabilities, Northern Trust is a leader in the securities lending industry, operating trading centres throughout Asia Pacific, Europe, the US, and Canada to take advantage of markets throughout the world 24-hours a day. Northern Trust is consistently recognised as a top lender, maintaining an exceptional 35-year track record, and holding top positions at the PASLA, ISLA, ASLA, the RMA, CASLA and EquiLend. Northern Trust tailors clients' programmes to their specific needs, fully consistent with our culture of putting clients first in all matters.

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