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The power of promise

Revenues from lending of Asian equities have risen steadily over the last four years, from $751.17 million in 2013 to $776.45 million in 2014 and $930.42 million in 2015, to more than $1 billion last year, taking the region above the $922.15 million highs it enjoyed in 2012.

The average value of inventory and utilisation have stayed steady over the same period, while the average fee commanded for equities, as well as the value of assets lent, have risen, suggesting improved pricing power in a region that already promised rewards. IHS Markit's Simon Colvin examines the finer details of the data coming out of Asia, finding that a shakeup in the region's revenue drivers may be afoot.

Australia joins the Asia Handbook, because superannuation funds are showing a desire to return to securities lending, while Taiwan, Japan and Singapore are put under the spotlight, to see what lessons have been learned from doing business in those markets.

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.

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Taking stock

The newly rebranded Mirae Asset Securities (USA) has made significant progress with the help of its South Korean parent. Members of the US senior management team discuss how the new entrant to the global prime brokerage, securities lending, repo and correspondent clearing businesses has fared. Drew Nicol reports

Why did Daewoo Securities (America) become Mirae Asset Securities (USA) in October 2016?

Peter Volino: Daewoo Securities (America) was acquired by Mirae Asset Financial Group as part of its global diversification strategy and to extend its asset management and brokerage businesses into the global prime brokerage, securities lending, repo and correspondent clearing businesses.

These businesses will be in addition to the New York firm's foreign research distribution and agency execution businesses, which will also be expanded.

Can you tell us more about the Mirae Asset Financial Group?

Richard Misiano: Mirae Asset Financial Group is South Korea's leading financial services firm. As of 31 December 2016, the group's asset management business had $90 billion in assets under management, while its wealth management franchise included $179 billion of assets.

Mirae Asset Financial Group's various broker-dealer subsidiaries and affiliates have approximately $5.8 billion in capital.

The group has a track record of successfully building businesses both inside and outside of South Korea.

It is currently in 15 markets including the US, UK, China, Hong Kong, India and Brazil. Mirae Asset Securities (USA) clients will now also benefit from the research coverage that the parent maintains for more than 1,000 public companies in South Korea, China, Vietnam, Indonesia and Brazil. Mirae Asset Securities clients will have access to meetings in New York with 'C' level executives from certain of these public companies, as well as meetings with American executives.

Mirae Asset Securities, strategically, is a logical extension of the formidable asset management and brokerage franchise created by the parent over the last 20 years in the wake of the Asian financial crisis.

We also have a presence in India, Indonesia, Australia and Singapore.

How has Mirae Asset Securities (USA) pursued its growth strategy since the acquisition last year?

Robert Akeson: Since the group concluded the acquisition, there have been several major developments to our services.

We have received a significant capital infusion from our parent—as of 31 January 2017, we had approximately $260 million of total net capital.

Mirae Asset Securities also received approval from the US Financial Industry Regulatory Authority to provide several services in the US, including securities lending, repo, prime brokerage and correspondent clearing.

It is also able to offer agency execution and buy-side trading, foreign research distribution, and corporate access.

In addition, Mirae Asset Securities (USA) is currently working with central counterparties and clearinghouses, such as DTCC, the National Securities Clearing Corporation, the Fixed Income Clearing Corporation and OCC, to establish memberships.

Furthermore, we are working with FIS, a $30 billion market cap public company and leader in the information services arena, to develop a customised leading edge, fully integrated back-office and front-end for hedge fund clients.

We expect to begin certain brokerage activities during Q2 2017.

With these new licences and memberships, who are your target clients?

Misiano: As we have a global scope and are well capitalised, the Mirae Asset Securities (USA) offering will target clients that transact in the equity, fixed income and options markets.

Our prime brokerage business clients are the emerging and small managers. They are the most affected by industry consolidation due to Basel III and the US Dodd-Frank Act.

We are also open to larger funds that are seeking a significant and attentive counterparty for their secondary prime brokerage relationships.

In terms of our global finance business clients, we will primarily work with sovereign wealth funds, insurance companies, along with other lenders and broker-dealers.

We are also able to service money market mutual funds, proprietary traders and real estate investment funds.

For our clearing business clients, institutional brokers that support hedge funds and proprietary traders.

Those are quite crowded markets. How will Mirae Asset Securities (USA) differentiate itself?

Volino: What is very exciting is that Mirae Asset Securities (USA) has the resources and reach of a significant global firm, but will provide high touch, boutique services for clients—similar to what Furman Selz and Neuberger Berman once did.

No other firm occupies this very important role. For example, we are not owned by a bank holding company and, therefore, are not directly subject to Basel III, while we also possess a significant balance sheet.

We have the technology and service model to support emerging and smaller managers.

These managers, because of their size, tend to be more nimble and focused from an investment strategy standpoint, which can result in them outperforming their larger competitors.

The parent of Mirae Asset Securities (USA) is an active investor in these alternative investment vehicles in South Korea and expects to be doing the same in other markets.

However, because of their size, many emerging and smaller may lack the resources and knowhow to properly manage their business risk—they can be overwhelmed by the complexity.

To help these managers better manage such risk, Mirae Asset Securities (USA) is partnering with leading technology companies, such as FIS, to provide a comprehensive, fully integrated technology platform for managers.

The Mirae Asset Securities (USA) prime brokerage platform will offer tailored solutions such as robust portfolio reporting and analytics, risk management, trading with global market access, and research.

The platform will have a large focus on supplying intelligent data to support our clients strategies.

We will also provide a host of advisory services that will assist clients in navigating through the mazes that are the office space, enterprise technology, cyber security, compliance and human resources and sectors.

Our primary goal is to, as much as possible, free managers up to do what they do best—to run money. **SLT**

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

Technology heals all

Asia has an ageing system of fragmented processes that have failed to keep up with the rapid growth of the markets and increasingly complex trading strategies, according to Laura Allen of Trading Apps

The Asia Pacific region continues to both deliver and promise steady economic growth. Despite an expected slight deceleration of GDP growth in the Asia Pacific economies to about 5.25 percent during 2017, the area remains the most dynamic region of the global economy.

That being said, the region faces a number of external challenges, including slow growth in advanced economies, a broad slowdown across emerging markets, weak global trade, persistently low commodity prices, and increasingly volatile global financial markets. Also in the short term, China's transition to a new growth model will most likely cause disruption among its regional partners. And perhaps the most unpredictable challenges are those presented to the region in regards to the uncertainties of the new US administration and the looming threat of a trade war.

On top of these challenges, developed markets such as Australia and New Zealand were in the late throes of dramatic housing booms in 2016, with record lows in mortgage rates, while low growth and inflation have featured in Japan. Meanwhile, new governments raised questions in India and Indonesia, while political scandal continues to affect South Korea. Yet investor confidence is back.

By and large, the steady growth story is triumphing and this is reflected in the securities lending market. Many Asian markets are still trading at 2015 price levels and therefore represent fair-to-reasonable value for investors. Opportunities for better long-term returns will come from an increased asset allocation across Asia's developed, emerging and frontier markets, giving rise to continued growth in lendable assets.

For developed markets, this increase in lendable assets has caused spread compression and, for emerging markets, it has resulted in greater liquidity and spread stability. Despite this, Asia remains at the forefront among securities lenders and their agents for its revenue potential as opportunities open up across the region.

If we look back eight years, outside of Japan, Hong Kong and Australia, there were limited opportunities within Asia, whereas today there are 11 active markets, each unique in structure, liquidity and workflow. The breadth of names traded (with the exception of Australia) has significantly grown as investors become more comfortable with the market resulting in deeper lending inventory.

The development and evolution of the Asian markets continues and as Figures 1 and 2 indicate, portfolios are beginning to broaden. The increase in market opportunities and available liquidity is attracting additional market participants. Major quant funds have been trading Asia since the early 2000s, but the lack of breadth made it challenging. Now that the markets have a greater number of names with much better liquidity, nearly all quant-based funds are investigating the markets via back testing to see if their models work for these subtlety different markets when compared to Europe and North America. This paradigm should continue to fuel the growth in equity lending in Asia during 2017.

Last year, Asia's hedge funds opened at the slowest rate since the turn of the century, with only 67 new launches in 2016, a third straight year of declines. However, capital inflows to Asia's hedge funds remains strong. Rather than allocating money to new funds that demand high fees and often deliver lacklustre returns, investors have chosen to go with larger, more established managers, typically with assets of at least $500 million, and tend to resemble conventional money management firms, with high-cost structures and lower fees. A decade ago, the average hedge fund in Asia was in the $100 million to $400 million range, where now there are several multi-billion US dollar funds that are backed by major publicly traded parent companies. Following the financial crisis, Asia was viewed as the saviour to profitability for all investment banks and alpha generators, which moved senior bankers/traders and capital to the region. This trend has stuck over the past 10 years.

Of course, with growth comes challenges, and nowhere more so than in Asia. Securities lending participants in this region must continue to evolve and embrace this dynamic market and its evolution. Participants require tools that will allow them to handle the growth of markets and the number of securities traded across a non-harmonised regulatory landscape, while minimising risk. Growth across markets and number of securities traded has resulted in a significant rise in trading volumes. A recent IHS Markit report showed a 90 percent increase in the average number of transactions between 2008 and 2016. Overall, a total of 380,000 securities lending transactions were undertaken in 2016 across Asia markets. Trade automation and process efficiency will certainly continue to gain momentum as this region's growth trajectory unfolds.

Sophisticated software will enable both lenders and borrowers to adhere to individual market regulatory requirements without hindering locate processing and automatic trading. In such a dynamic market, firms require the ability to view total inventory, both internal and external, and configure rules at the

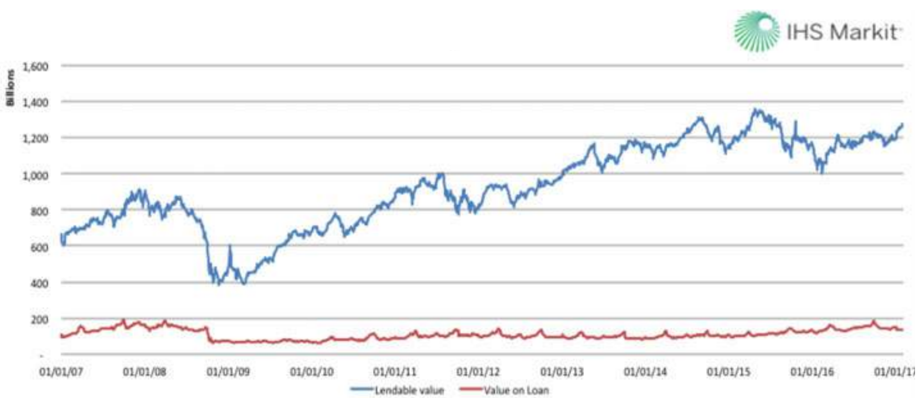


Figure 1: Asian equities. Source: IHS Markit

	2008	2014	2016
Hong Kong	575	871	1061
Singapore	287	330	296
Japan	2808	3193	3623
South Korea	530	1573	1967
Malaysia	2	160	185
Taiwan	158	1106	1216
Australia	1036	645	629
Thailand	88	152	168
Indonesia	23	29	28
China	3	1	13
Philippines	16	10	18
	5,571	**8,146**	**9,294**

Figure 2: Average number of equities with stock loan volumes. Source: IHS Markit

market, security and counterparty level to ensure timely and efficient processing.

Rather than embark on a timely and costly in-house build, firms are increasingly looking at external vendors to provide technology that revolutionises and transforms the manner in which they run their business. The key drivers for Asian market participants are higher lending and borrowing volumes, faster overall response times, and greater revenue generation.

Our experience has taught us that rapidly growing and expanding markets are perfect opportunities for the types of efficiencies and automation that our applications offer. Trading Apps is a firm with global clients, but no matter where our clients sit in the world, they are being asked to achieve more with fewer resources. Since 2011, we have been developing targeted applications that continue to raise the bar regarding automation, revenue optimisation and risk mitigation.

In common with many other securities lending regions, Asia has an ageing system of fragmented processes that have failed to keep up with the rapid growth of the markets, the number of active securities and the complex trading strategies. The need for technology solutions to solve for these issues will result in both an exciting and a challenging year for those focused on achieving more in Asia. **SLT**

Growing and expanding markets are perfect opportunities for the types of efficiencies and automation that our apps offer

Laura Allen
Head of sales
Trading Apps

2017: Perspectives on Asia

Hong Kong, China, Japan, emerging markets, technology development and regulation are on the agenda in Asia, says Northern Trust's Dane Fannin

The securities lending industry in Asia fared relatively well in 2016 despite a backdrop of relatively lacklustre global economic growth, geopolitical uncertainty and sustained market volatility. In an eventful year, we saw a number of distinct trends, innovations and themes develop and take shape.

Hong Kong and China

Despite Hong Kong remaining a key source of revenue in the region, demand waned in the face of uncertainty and volatility from China. We are optimistic that this trend will reverse in 2017 as the prospect of higher US interest rates should break down asset price correlations and encourage traditional stock pickers' convictions. Hong Kong will remain an attractive haven for investors with strategies pertaining to China's economic transition.

The launch of the Shenzhen-Hong Kong Stock Connect in late 2016 was an important milestone for the industry ahead of regulators approving an ability to lend and borrow China shares via the scheme. The Shenzhen link complements the existing Shanghai-Hong Kong Stock Connect platform giving foreign investors and index providers access to China's two major bourses. While securities lending rules here remain unviable, development and change is headed in the right direction and participants should remain vigilant ahead of this significant opportunity.

Japan

Borrower demand in Japan has remained robust, helping to drive revenues higher in 2016. The bold accommodative monetary policy regime helped stoke demand for various sectors, particularly those affected by negative interest rates that drove short demand.

Notably, we observed a clear increase in borrower demand to pledge JPY-denominated collateral as a function of the negative interest rate environment. Beneficial owners accepting Japanese government bonds, for example, would have seen a notable uptick in volume. Given Japan's significant depth in liquidity, coupled with ease of execution relative to other regional jurisdictions, we expect demand in Japan to remain robust for the foreseeable future.

Emerging markets

Emerging market demand continues to be strong in the region, offering beneficial owners attractive returns should their lending providers be able to navigate the operational complexities without exposure to undue risk. South Korea's return profile has enhanced significantly over the last 12 to 24 months due to increased foreign investor demand. This in turn has been helped in part by constraining regulatory measures in other jurisdictions.

In Malaysia, demand remains highly sporadic as a function of the fundamentals driving activity there, such as currency and commodity price fluctuation. However, supply continues to grow, and this should drive liquidity and ultimately spur a greater allocation of capital from long/short investors.

Technology developments

Technology developments continue to influence the industry in Asia, and technology use is becoming a competitive advantage. Interestingly, the growth of quantitative investor strategies in Asia has in part helped to drive a change in the way lenders and borrowers interact with one another.

Typically, these strategies induce large amounts of flows, requiring rapid and automated execution. They have spurred investment into enhanced trading platforms utilising technology such as EquiLend's Next Generation Trading to help enhance the automation of trading processes. Having leveraged all aspects of this technology, we believe our clients will benefit directly through increased trading efficiencies.

Regulation

Asia has certainly not been immune to global regulatory reform and consistent to other regional hubs. Industry participants have moved relatively quickly to absorb new requirements and recalibrate their business models. We continue to observe increased revenue opportunities for beneficial owners as a function of regulatory changes.

Demand for high quality liquid assets continues to drive opportunities. That is particularly case for those asset owners with a risk-return appetite conducive for lending government bonds on a termed basis versus a lower grade of collateral. We also observe a gradual trend in borrowers pursuing new entity designations in jurisdictions that are both operationally-efficient and capital-efficient. This is presenting opportunities for lending providers to capitalise on increased loan volumes where first-mover-advantage exists. **SLT**

Borrowers are pursuing new entity designations in jurisdictions that are both operationally-efficient and capital-efficient

Dane Fannin
Head of capital markets, Asia Pacific
Northern Trust

Established markets carry Asian securities lending

IHS Markit's Simon Colvin reviews the performance of Asian markets

Asia continued to earn its title as a key driver of the global securities lending industry last year as the region's total revenues posted their fifth straight year of revenue growth. Overall revenues generated by beneficial owners in the region grew by just under $100 million, which pushed the total revenue generated by lending Asian equities above the $1 billion mark. The uptick in revenue was in part driven by a growth in balances as the average daily value on loan figure rose by 6 percent to $71 billion.

Improved pricing power also played a part as the value weighted average fee for all loans originated in the region grew by 4 basis points (bps) to 1.34 percent. This improved pricing power was underpinned by flat inventories, which ended the year as they started, at around the $1.2 trillion mark.

While encouraging, there are signs of a shakeup in the region's revenue drivers. Last year's 10 percent revenue growth, the second consecutive double digit percentage rise, was driven by the region's more established Japanese and South Korean markets.

Hong Kong's securities lending revenues, which were the driving force behind much of the industry's growth over the previous couple of years, fell by more than a third, in what was the most meager revenue haul for the market since 2013.

Japan powers industry growth

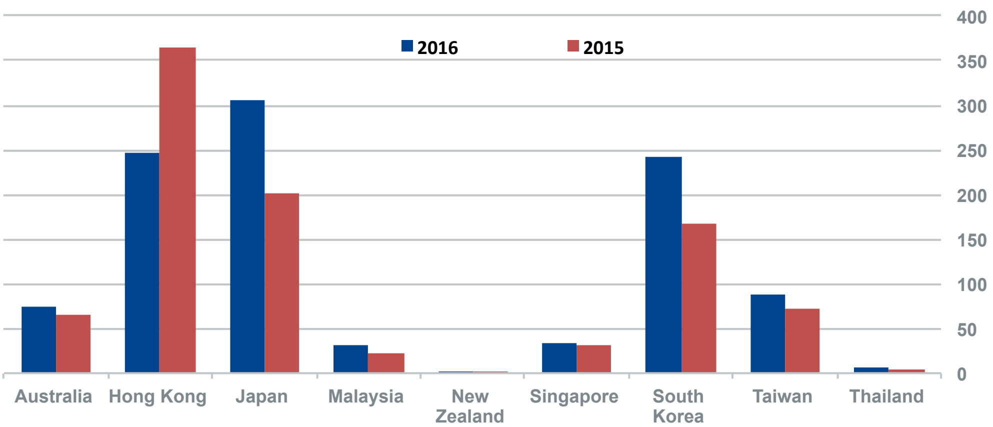
Japan was the single largest driving force behind last year's bumper revenue haul. Overall revenues jumped generated by Japanese stock lending rose by $103 million for the year to $305 million, a massive 50 percent increase. This bumper haul means that Japan generated around a third of the total region's equity revenues, a sharp increase from the 22 percent share it contributed in 2015.

The increase in Japanese equity revenues is mostly attributable to the fees charged to borrow the asset class, which jumped from 75 bps to 100 bps. Average loan balances were also up for the year, rising 12 percent to $29 billion.

Specials have been the driving force behind Japan's surging fees as the proportion of Japanese shares that trade over 100 bps has doubled over the last 24 months. Some 13 percent of all Japanese share now trade special—by far the highest proportion registered at any time over the last two years. The fee commanded by these specials has also increased as borrowers are now being charged 550 bps to borrow Japanese specials—up significantly from the 420 bps that was charged back in early 2015.

The top specials in terms of revenue generated were robotics firm Cyberdyne and electronics

Figure 1: Securities lending revenues, USD Mn. Source: IHS Markit



manufacturer Sharp, which earned $20.7 million and $14 million of revenues for beneficial owners, respectively.

South Korea: Another strong performer

South Korea was the other standout market in the region as the country registered a $75 million increase in total revenues generated, which put it nearly on par with Hong Kong as the second largest source of Asian stock lending revenues.

As was the case with Japan, the revenue figures were driven by a mix of higher fees and improved balances.

This can be mostly attributed to a single stock, biotechnology firm Celltrion. The company was by far the most in demand stock in the region and generated a hefty $84 million of revenues for beneficial owners. This was more than two and a half times higher than generated by any other stock in the Asia.

Celltrion's average balance over the year jumped by $400 million to around $1 billion, which is roughly 80 percent of the increase in average daily balance registered across the whole of South Korea.

Hong Kong disappoints

Disappointing economic news coming out of China at the beginning of the year ought to have provided ample opportunities for Hong Kong securities lending, however, the market failed to live up to the previous year's revenue tally by a wide margin. Both fees and balances contributed to the lackluster revenue performance as short sellers covered due to China's economic prospects brightening.

Hong Kong short sellers didn't totally vanish as the market was still home to the second most in demand stock in the region, China Huishan Dairy. The company came under attack from activist short sellers who were willing to go over 30 percent in order to borrow the stock.

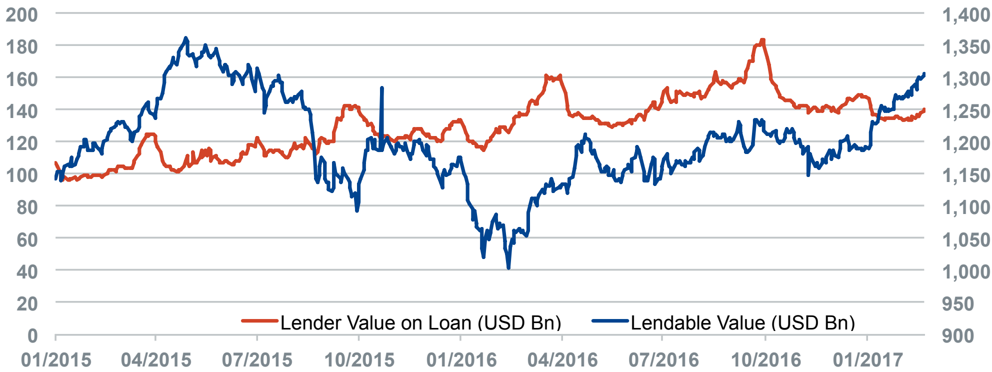
Taiwan up, but still lagging

Taiwanese stock lending revenues, which are also highly exposed to Chinese economic volatility, fared better than Hong Kong over the course of last year as they grew by 20 percent to $87 million. While encouraging, it's worth noting that the revenues generated by the market are still some way off the $135 million tally registered in both 2013 and 2014.

Australia

Australia earns the last slot among the five largest revenue earning markets after generating $74 million of revenues for beneficial owners. This represents a 15 percent increase over 2015.

Figure 2: Lender value on loan, USD Bn. Source: IHS Markit



This increase was helped by the country's large exposure to the commodities sector, which underwent more than its fair share of upheaval over the year. This exposure to some of last year's most volatile stocks placed both primary producers and related services firms in the top 10 largest revenue generating stocks in the country.

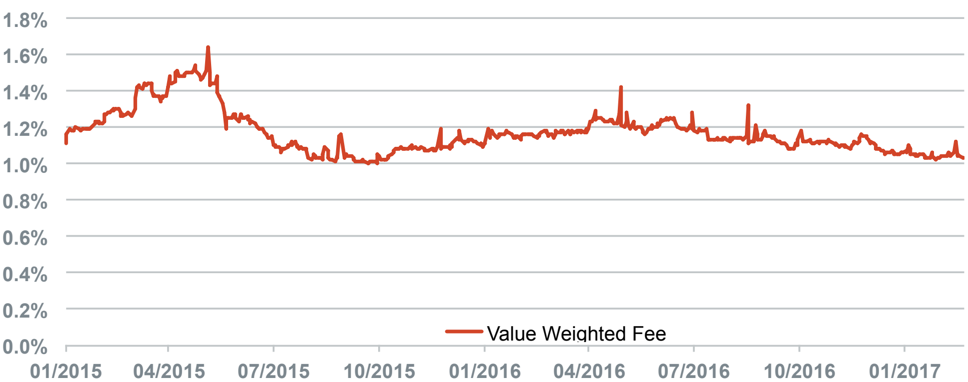
Smaller markets performing well

The six smaller stock lending markets—Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand—also had fairly successful years as these markets registered a 24 percent increase in revenues to hit a total of $73 million.

The commodities slump was also evidenced in these markets, perhaps nowhere more than in Singapore where commodities trading house Noble and offshore rig servicer Sembcorp marine combined to earn more than $13 million of revenues.

In fact, these two stocks earned more than a third of the total stock lending revenue generated by Singaporean equities. **SLT**

Figure 3: Value weighted fee. Source: IHS Markit



> The six smaller stock lending markets registered a 24 percent increase in revenues to hit a total of $73 million

Simon Colvin
Analyst
IHS Markit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Moving on up

The big names of Asia remain at the forefront of participants' minds, but less developed markets are increasingly coming to the fore. Drew Nicol reports

Securities lending plays a larger part in Asia each year, but at the same time, misplaced stigma attached to practices, such as short selling, continues to recede in the face of open dialogue and education. Liquidity remains a primary concern across Asia, however, partly due to the embryonic nature of some country's securities financing markets—but progress is being made.

J.P. Morgan's Asia Pacific head of agent lending, Stewart Cowan, comments: "We have seen a number of regulatory changes to assist liquidity, specifically Malaysia's reforms to the uptick rule, Taiwan's consideration of a reduction to the securities transaction tax rate and the expansion of Stock Connect to include Shenzhen. These changes are all designed to improve liquidity and, in turn, pricing transparency."

Of all Asia's securities lending markets, Hong Kong proves to be one of the most reliable for offshore investors. Its regulators pushed through a number of initiatives in 2016 that further augmented the attractiveness of the market.

Dane Fannin, head of capital markets for the Asia Pacific at Northern Trust, explains: "Hong Kong made positive moves for securities borrowing and lending with its much-anticipated launch of the Shenzhen-Hong Kong Stock Connect scheme in late 2016."

"This complements the existing Shanghai-Hong Kong initiative and importantly gives international investors access to China's two main bourses."

On the other side of the Stock Connect, China continues to frustrate lenders and their agents. Rob Chiuch, global head of equity and fixed income finance at BNY Mellon, says: "One challenge is that only domestic participants are able to engage in securities lending and borrowing in China, so this limits the development of a more globally active securities finance market."

"Additionally, in regard to China's same-day settlement period, you don't have time to recall loaned securities to cover trades. Share suspensions in Hong Kong and/or China also remain a hot topic especially for exchange-traded funds (ETF) issuers in that space. ETFs are, furthermore, reportedly being considered as potential eligible securities in the Stock Connect."

Despite facing some headwinds, many in Hong Kong and China remain positive that the Stock Connect will eventually become another jewel in the crown of the jurisdiction. Fannin adds: "This [Shenzhen-Hong Kong Stock Connect] marked an important milestone towards achieving an approved and feasible solution for lenders and borrowers of Chinese A-shares."

"This achievement could also potentially serve as a catalyst for China to be included in major indices, which would help to drive the liquidity pool of lendable assets ahead of any securities borrowing and lending structure being approved."

State Street's head of securities finance Asia Pacific, Jansen Chua, says: "China continues to be a story for tomorrow rather than today. We believe one of the main growth stories in 2017 will be the continued development of institutional investors in China, driving the shift from a predominantly retail market to one that is more institutional."

Francois Maury, head of equity finance for Asia at Natixis, offers a further reality check to anyone hoping to crack the Chinese market in the near future.

"China is indeed the key country," he explains. "We are hoping for legal progress on the subject of transfer of securities to lead to the development of a real onshore stock lending market. In our recent conversations with regulators we have been under the impression that it would take some time."

Selling the market short

South Korea's financial regulator managed to provoke a backlash from buy-side participants with a new set of "politically motivated" strict short selling rules, set to come into force on 27 March, that have the potential to significantly impair that aspect of their business.

Primarily, the Korean Stock Exchange will be handed new powers to withdraw "overheated" stocks for a 24-hour cooling off period.

According to the Korea Exchange, the new rules will help to mitigate information asymmetry in short selling, while forcing short selling violators to pre-deliver securities prior to short-selling will enhance the effectiveness of penalties and bolster market transparency.

A source operating the South Korean market, who did not wish to be named, comments: "The biggest concern is not this particular [short selling] regulation per se, but whether this will be the start of more regulations to come, essentially creating a market unattractive to offshore hedge funds."

He continues: "Industry participants are hoping [for] little impact, as majority of daily flow comes from along based offshore hedge funds that trade based on more breadth than depth of names to being with."

"The criteria are not set in stone and, thus, more details in the near future will be pivotal in how much impact the recent regulation will have."

Crucially, the source suggests that no attempt was made to consult the industry prior to the finalisation of this controversial rule.

"This does go against deregulating the industry. Industry participants view this recent regulation as politically motivated versus creating an industry attractive to hedge funds," the source states.

Away from the spotlight, a number of less develop lending markets continued to be prove their worth last year.

Fannin says: "Malaysia also continues attract focus. Here, while market demand remains highly sporadic, which fundamentals such as currency and commodity price fluctuation largely driving activity, it is a market where supply continues to grow. We expect this to drive further liquidity and spur a greater allocation of capital from investors."

Brown Brothers Harriman's head of Asian securities lending trading, Zubair Nizami, agrees, stating: "Although spreads have compressed in Malaysia and Taiwan, both still offer attractive returns." **SLT**

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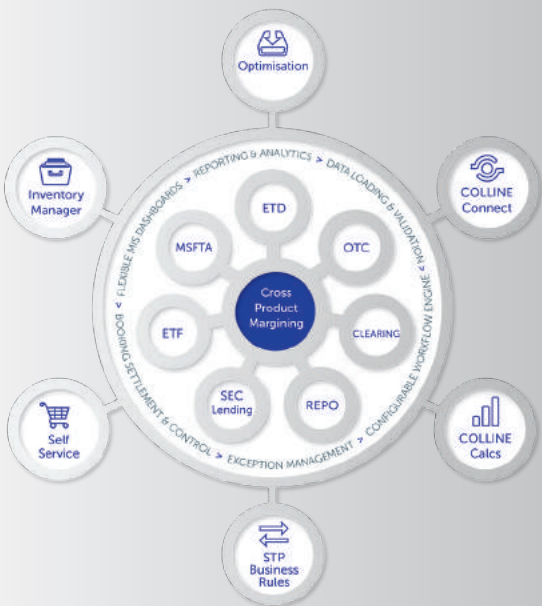

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ASIA'S ASSETS

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

AUSTRALIA

Revenue

- 2016: $73.73 million
- 2015: $64.31 million
- 2014: $55.19 million
- 2013: $70.5 million

Average Utilisation

- 2016: 7.2 percent
- 2015: 6.5 percent
- 2014: 5.4 percent
- 2013: 5.7 percent

Average Value On Loan

- 2016: $12.71 billion
- 2015: $10.73 billion
- 2014: $10.76 billion
- 2013: $11.07 billion

Average Lendable

- 2016: $176.75 billion
- 2015: $167.32 billion
- 2014: $199.69 billion
- 2013: $195.12 billion

HONG KONG

Revenue

- 2016: $247.43 million
- 2015: $365.57 million
- 2014: $292.35 million
- 2013: $235.1 million

Average Utilisation

- 2016: 6.7 percent
- 2015: 6.5 percent
- 2014: 7.4 percent
- 2013: 7.4 percent

Average Value On Loan

- 2016: $15.45 billion
- 2015: $17.11 billion
- 2014: $18.25 billion
- 2013: $17.22 billion

Average Lendable

- 2016: $231.28 billion
- 2015: $265.75 billion
- 2014: $248.91 billion
- 2013: $233.5 billion

JAPAN

Revenue

- 2016: $305,41 million
- 2015: $202,32 million
- 2014: $196.64 million
- 2013: $165.89 million

Average Utilisation

- 2016: 5.3 percent
- 2015: 4.7 percent
- 2014: 4.7 percent
- 2013: 4.9 percent

Average Value On Loan

- 2016: $28.9 billion
- 2015: $25.75 billion
- 2014: $22.94 billion
- 2013: $20.86 billion

Average Lendable

- 2016: $547.09 billion
- 2015: $553.96 billion
- 2014: $485.38 billion
- 2013: $435.16 billion

SINGAPORE

Revenue

- 2016: $32.91 million
- 2015: $31.05 million
- 2014: $31.9 million
- 2013: $57.93 million

Average Utilisation

- 2016: 7.4 percent
- 2015: 6 percent
- 2014: 5.4 percent
- 2013: 6.1 percent

Average Value On Loan

- 2016: $2.77 billion
- 2015: $2.46 billion
- 2014: $2.7 billion
- 2013: $2.99 billion

Average Lendable

- 2016: $37.87 billion
- 2015: $42.03 billion
- 2014: $49.88 billion
- 2013: $49.23 billion

SOUTH KOREA

Revenue

- 2016: $241.66 million
- 2015: $167.02 million
- 2014: $91.11 million
- 2013: $70.56 million

Average Utilisation

- 2016: 7 percent
- 2015: 6.8 percent
- 2014: 4.7 percent
- 2013: 3.8 percent

Average Value On Loan

- 2016: $5.46 billion
- 2015: $5.06 billion
- 2014: $4.3 billion
- 2013: $3.04 billion

Average Lendable

- 2016: $78.95 billion
- 2015: $75.06 billion
- 2014: $91.22 billion
- 2013: $80.31 billion

TAIWAN

Revenue

- 2016: $87.61 million
- 2015: $71.5 million
- 2014: $89.39 million
- 2013: $134.88 million

Average Utilisation

- 2016: 10.1 percent
- 2015: 10.4 percent
- 2014: 11.2 percent
- 2013: 13.9 percent

Average Value On Loan

- 2016: $3.65 billion
- 2015: $4.06 billion
- 2014: $4.31 billion
- 2013: $4.44 billion

Average Lendable

- 2016: $36.59 billion
- 2015: $39.38 billion
- 2014: $38.72 billion
- 2013: $31.89 billion

All figures are equities and USD unless otherwise stated. Source: IHS Markit

It's an insurance company. It's an asset manager. It's a superannuation fund!

Super funds are again looking to securities lending as a source of incremental revenue, says Natalie Floate of BNP Paribas

In Australia, we are seeing a change in approach and appetite for securities financing products from superannuation funds. This has been driven by the general return to focusing on fund performance after several years in which the agenda has been dominated by risk management and regulatory change.

Super funds and other institutional investors have been managing an unprecedented amount of regulatory change since 2009, and have had to focus on this while also undertaking their own risk assessments and general risk reviews following the Lehman Brothers default in 2008. How did their portfolios manage the market stress? How effective were their risk management and hedging strategies? What was the liquidity risk for the fund and how could they mitigate the impacts should the same situation occur again in the future?

Globally, the regulatory focus was on risk management, capital protection and transparency of risk for investors. In Australia, the regulators added another element—choice for investors. This entailed a suite of regulatory changes that introduced flexibility for investors to switch their superannuation plans easily between providers, or to opt out of the traditional super fund model and set up their own self-managed super funds. This element of choice resulted in fees charged by superfunds becoming a major discussion topic.

So today our super funds are under pressure to perform well while reducing costs. This has timed well with the securities finance sector and particularly securities lending, as market participants have worked hard since 2008 to increase awareness of their activity, specifically what drives borrowing and lending, as well as the size of the market. A number of major markets such as Australia have introduced daily reporting via their local clearinghouses of all securities lending and borrowing activities. Individual lending agents have worked with clients and prospects to increase awareness and knowledge of securities lending activities—the risks to be managed and the potential returns.

What are we seeing today? We are seeing a stronger pipeline for securities lending than ever before, and having detailed discussions with super funds as to the drivers for revenue and on what assets to lend and collateral to use, factors to managing borrowers and liquidity, and tenor risks in reinvestment. In regards to international lending, we are seeing strong returns globally for high-quality government fixed income assets that qualify as 'high-quality liquid assets', particularly against non-cash collateral. In regards to equities lending. we continue to see strong demand for US, Hong Kong, Japanese, South Korean and Taiwanese equities held by Australian investors.

Collateral is where we have seen the greatest change. Before 2008, the lending market was made up of around 80 percent cash collateral. Today, it moves around 50 percent and this suits many of the super funds well.

At BNP Paribas, we can lend versus cash or non-cash collateral. For some of our clients, we work exclusively on a non-cash collateral basis (for example, lending a bond versus an equity as collateral), removing their need to monitor reinvestment risk. For some of the larger funds with more experience in securities lending and often an in-house investment team, we are seeing requests for more reinvestment options and in some cases directed lending support.

This is when we are acting as a traditional agent lender but the client may have agreed some trades directly with brokers, but wants to leverage our infrastructure in regards to loan servicing, such as settlement, mark to market and income/ event protection. We are also seeing more internal governance on the fund side, including monitoring of our activities and questions during service reviews.

In summary, I would say that the super funds are again looking to securities lending as a source of incremental revenue—either to improve performance or reduce operating costs. Having flexibility in providing securities lending services to these funds is critical, as they are more precise these days and their lending agent needs to be able to manage a bespoke programme as no two super funds in Australia are alike. **SLT**

Having flexibility in providing securities lending services to these funds is critical, as they are more precise these days

Natalie Floate
Head of treasury, foreign exchange and agency lending, Asia Pacific
BNP Paribas Securities Services

Turning a negative into a positive

Francois Maury of Natixis examines how the Japanese market has fared and what it means for borrowing and lending. Drew Nicol reports

How has the Japanese market developed in the past 12 months?

The decision of the Bank of Japan (BOJ) on to push into negative interest rates on 29 January 2016 had a lasting impact on the market.

Local players frequently had difficulty adapting to the new rate environment, both from a systems and legal point of view. It therefore created a dislocation between onshore and offshore markets for JPY assets.

A consequence for the stock lending market was the reluctance of some non-Japanese lenders to accept JPY cash collateral, as the fear of a further push by BOJ into negative interest rate territory added to the negative impact on balance sheet of securities versus cash transactions. On the other hand, Japanese counterparts generally did not change their views on the acceptance of cash collateral. Diverging views most likely affected volumes negatively.

As a result, demand for Japanese names was somewhat lacklustre, with the exception of non-March or September names, which were strongly sought after throughout the year.

And how has all this affected your business?

In 2016, we witnessed a generalisation of total return swaps with funding purposes on JPY underlying. Those instruments now widely traded in the interbank market, which, on the one hand, better address the need for banks to optimise their balance sheets, as the swap buyer needs to sell the equity hedge.

On the other hand, they allow market participants to take exposure on the USD/EUR versus JPY crosses under the form of USD or EUR swaps on Japanese equity.

At the same time, we witnessed a general compression of spreads during the period between January to November 2016, with—to take just an illustration—the price of switches Japanese government bonds versus JPY equities moving significantly down.

That phase ended and reversed last November with the take-off of the 'reflation-rally' induced by the US elections and we are now seeing some volume pick-up going into 2017.

Looking ahead, what do you see in Japan's future in terms of securities lending?

We believe the market could further progress albeit with some volatility episodes. About 15 percent of Japanese companies' profits come directly from North America-based production and should therefore benefit from a large US stimulus, while being relatively immune to potential new trade barriers. Besides a slightly more inflationary global economic environment—led by the US—can only help the BOJ to better achieve their goal to reboot consumers and companies' spending. **SLT**

A consequence for the stock lending market was the reluctance of some non-Japanese lenders to accept JPY cash collateral

Francois Maury
Head of equity finance for Asia
Natixis

These rules are made for following

While the fragmentation of the Asian market often makes it difficult to determine which jurisdictions will adopt which rulings, the pending changes that Singaporean regulators have proposed should come as no surprise, says Tracey Adams of Lombard Risk

It would seem that the Monetary Authority of Singapore's (MAS) focus on derivatives at the start of 2017 will be no less demanding than 2016. In January 2016, MAS consulted on proposed amendments to the Securities and Futures Regulation relating to the derivatives reporting regime. Exactly a year later and MAS has announced a new wave of amendments aimed at bolstering existing regulation. These changes seek to tighten the underlying framework of the original Securities and Futures Act (SFA) of 2012, enhancing transparency and strengthening the market against financial misconduct.

While the fragmentation of the Asian market often makes it difficult to determine which jurisdictions will adopt which rulings, the pending changes that Singaporean regulators have proposed should come as no surprise.

A combination of record foreign exchange volumes and steadily increasing interest rate derivative transactions coupled with a requirement for banks to come to par with other global players meant that regulators deemed it a necessity to ensure that global rulings must apply.

Some of the key proposals that were made on 9 January 2017 include:

- A takeover of all over-the-counter derivatives activities, including commodity derivatives. This enables MAS to regulate market operators and capital markets intermediaries.
- The empowerment of MAS to stipulate the trading of all derivatives contracts on organised trading facilities instead of over the counter.
- The disclosure of short-sell orders to the relevant exchange and reporting of short positions above specified thresholds to MAS and the recommendation to introduce a new framework for financial benchmarking.
- Further clarification and stringency around the original SFA regarding the influence of market prices by 'persons who commonly invest'.

Creating a balance between the promotion of growth while also ensuring that regulation is adhered to is a fine line that regulators are having to walk. MAS has said that it will continue to review and expand the scope of both derivatives and securities finance regulation, taking into account both national and international demands. While this may cause concern for some, others would argue that Singapore stands in a position of strength in comparison to some of its Asian counterparts.

The regulators are taking a consultative approach, banks are well capitalised with strong capital adequacy ratios and most buy-side participants already have the correct legal frameworks in place for the exchange of collateral. In short, the building blocks of the Singapore capital market segment is strong enough to weather incremental waves of regulatory change.

What both the sell and buy side now need to address is the internal system infrastructure upon which the regulations can be implemented. The need for organisations to have a comprehensive, robust, operationally integrated, and technologically advanced solution for enterprise-wide and cross product collateral management has become imperative. For example, on the sell side, while a strong capital base will help ease immediate pressure, the lack of an adequate/centralised inventory layer or tools to optimise assets will result in the inefficient use of collateral. As the cost of collateral increases and the requirement to hold increasing amounts of unencumbered high-quality liquid assets is introduced, many banks are having to adapt.

In terms of post-trade measures, what forms the strength and backbone of an institution's ability to manage collateral pressures is the further centralisation of inventory and liquidity funding functions across desks/products. This gives firms a view on forecasting, maturity ladders and funding diversification which will in turn allow for greater opportunities around optimisation and less liquidity wastage. On the buy side, while legal frameworks with banking counterparties to collateralise are in place, many of these processes are manual. Equally, and like the sell side, buy side participants will see margin call volumes increasing.

Firms will need to explore cross-product margining opportunities, develop analytics to drive margin efficiencies, and move their manual, spreadsheet-based tools to a more automated and compliant collateral management infrastructure. Participants will need to track, value, and substitute collateral seamlessly. Implementing such solutions will be crucial to keeping an organisation competitive—particularly if it is part of a proactive approach to managing risk, regulation, and capital. **SLT**

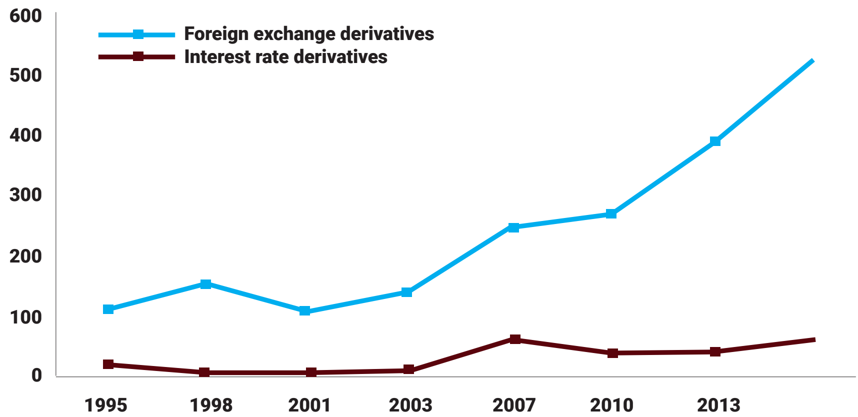

Figure 1: Turnover of foreign exchange and interest rate derivatives in Singapore (USD, Bn)
Source: Bank for International Settlements

Some would argue that Singapore stands in a position of strength in comparison to some of its Asian counterparts

Tracey Adams
Regional head of product, APAC
Lombard Risk

Driven to succeed

J.P. Morgan expects to see a continuation of the increase in lendable assets with Taiwan clients and anticipates more interest in this product, says Frank Niu

Taiwan is a mature market. Taiwan clients view lending as a great way to maximise alpha for their portfolios with minimal additional risks. With regulations relaxing on the percentage of overseas investments over the past 10 years, more and more assets are being allocated overseas. Over the same period, we have witnessed substantial lendable asset growth with our Taiwan client base.

Most requirements on lending in Taiwan are tax and regulatory driven. The regulatory guidelines provide sufficient flexibility on lending. In concert with our programme's parameters, clients are able to maximise their lending opportunities within the current regulatory framework. This has allowed the Taiwan market to thrive in the past few years.

Domestic tax on lending is complex and the lack of double tax treaties between Taiwan and other countries complicates the tax-related configuration of Taiwan clients' programmes. However, the lack of double tax treaties in Taiwan also creates opportunities for better yield enhancement and has meant that cash collateral is the dominant collateral option for Taiwan-domiciled clients. All things considered, these contribute to better lending returns for Taiwan lenders.

Taiwan lenders are performance-focused and savvy in achieving better lending revenues. They welcome ideas to enhance their programme and are generally willing to adjust their operational processes to realise these enhancements.

The reporting requirements from Taiwan clients are moderately complex. Their needs for better programme transparency and regulatory reporting have made the quality of reporting a critical success factor in this market. Programme analytics/commentaries, as well as performance benchmarking, are highly valued by Taiwan clients. Monthly programme data and some ad hoc reports are needed to ensure regulatory compliance. The requirement for some reports and documentation to be in Chinese means that local language support is highly regarded.

Over the past 10 years, J.P. Morgan has been running lending programmes that have met or exceeded the expectations of the initial group of Taiwan clients. These success stories are shared by our clients with their peers. This has generated significant interest in agent lending. Prospects are eager to understand the revenue potential of their portfolio and how they might mirror the success of their peers' lending programmes. Although custody-based lending is still the norm in this market, we are also starting to see interest in non-custody lending.

In light of the current challenging investment environment, commercial sector clients have been increasing their asset allocation to high yield bonds in order to achieve better return on their portfolios. As high-yield bonds are a popular asset class in lending, clients are also realising good revenue by lending this asset class to borrowers.

Taiwan clients value J.P. Morgan's ability to generate outstanding lending income and have seen continued substantial growth of their lending revenue.

Through years of partnership, Taiwan clients have a high degree of confidence in our risk management framework and control measures. They depend on our services to facilitate their programmes' compliance. Indemnification supported by J.P. Morgan's financial strength is another reason they choose J.P. Morgan as their primary service provider.

J.P. Morgan's strong custody franchise in Taiwan and our ability to provide in-region, same-time zone, same-language lending coverage and support continue to be key differentiators to Taiwan clients that enjoy the benefits of end-to-end custody and lending services.

With the increasing interest in agent lending and the continued growth in lendable assets of clients, we have expanded the agent lending team based in Hong Kong over the past two years to support our clients in region. Additional professionals specialising in reporting and service joined the team to enhance client experience and overall satisfaction with the agent lending programme.

We expect to see a continuation of the increase in lendable assets with Taiwan clients and anticipate more prospects showing interest in this product. Given the December 2016 US Federal Reserve rate hike and those anticipated for 2017, US dollar investment yield will improve gradually. This yield improvement will benefit Taiwan clients whose lending revenue is substantially driven by return from cash collateral reinvestments. **SLT**

Although custody-based lending is still the norm in this market, we are also starting to see interest in non-custody lending

Frank Niu
Executive director for securities lending
J.P. Morgan

BNP Paribas Securities Services

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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 USD 9.577 trillion in assets under custody, USD 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 provide 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.

IHS Markit

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 program 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.

Lombard Risk

Alastair Brown
CEO

Tina Wilkinson
Global Head of Product & Marketing

Lombard Risk is a leading provider of collateral management and regulatory reporting solutions to the financial services industry. Through intelligent automation and optimisation, Lombard Risk's clients are able to improve their approach to risk management, gaining the agility they need for competitive advantage. As well as bringing immediate and urgent solutions to clients' needs, Lombard Risk's global team of experts look beyond today's reporting and collateral management to develop technology solutions that help them adapt as industry challenges evolve.

COLLINE is a web-based solution that supports all of your regulatory and strategic collateral management needs anywhere your business operates, across all time zones. The solution enables firms to move away from managing collateral in business silos. COLLINE supports multiple business lines on a single platform thus permitting more efficient collateral management, collateral optimisation and proactive management of liquidity and capital charge constraints.

At the heart of the system is a powerful, configurable enterprise inventory manager that interfaces with your existing systems. With this holistic understanding of the underlying assets, the system is then able to:

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- Manage end-to-end margin call workflows
- Reconcile margin call disputes
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- Provide consolidated information in user-defined dashboards
- Support an array of sophisticated risk and trade analytics

Find out more at https://www.lombardrisk.com / info@lombardrisk.com

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Mirae Asset Financial Group acquired leading securities firm Daewoo Securities in 2016 and formed Mirae Asset Securities (USA) Inc.

Mirae Asset Securities (USA) Inc. will emerge as a leading provider of prime brokerage, securities lending, repo, correspondent clearing, agency execution and foreign research distribution services to the institutional buy-side community.

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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 31,2 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 2016

Northern Trust

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www.northerntrust.com/securitieslending

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Pirum provides a secure, centralised automation and connectivity hub which seamlessly connects market participants with each other, allowing them to electronically verify key transaction details and fully automate the post-trade lifecycle. By combining an in-depth understanding of both the Securities Finance industry and Information Technology, Pirum has created a set of highly innovative and flexible services which are tailored to fully support the complexities of the underlying business processes.

Pirum's platform also provides onward connections to other infrastructure service providers. This position, at the heart of the Securities Financing market, allows Pirum clients to reuse their connection to Pirum to access triparty agents, market data companies, CCPs and trading venues with additional connectivity being added all the time. Financial Institutions from around the world have increased processing efficiency, reduced operational risk and improved profitability by using Pirum's services to reduce manual processing.

Pirum's Core Service delivers:

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Pirum's Live service delivers:

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- Bilateral exposure reconciliation
- CCP gateway
- Automated returns with STP rates over 97%
- Automated prepay and cash return compare
- Real-time contract compare and pending compare
- Automated loan release
- Trading venue connectivity
- SFTR Reporting

Trading Apps

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