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Poised to dominate

Figures have it that the Asia Pacific, which in this instance covers Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan and Thailand, saw its population of individuals with $30 million of assets (excluding their main residence) soar by 17.3 percent to $14.2 trillion among 4.3 million people in 2013.

The region closed the gap on North America, trailing behind its population by just 10,000 individuals. In Hong Kong, the story was much the same in 2013, with 124,000 individuals sharing $627 billion.

Asia as a region is poised to become the world's dominant financial centre, and individual jurisdictions are considering what they can do to embrace this inevitability. Securities borrowing and lending, it seems, is high on the list.

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, don't hesitate to drop us a line.

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Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row,
Beckenham, BR3 1AT, UK

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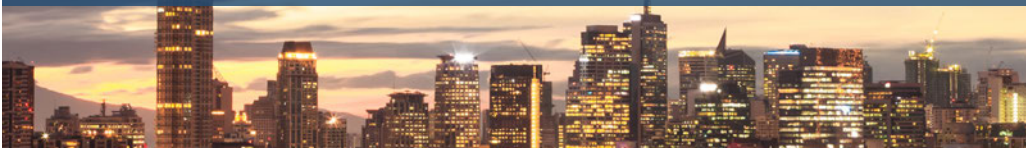

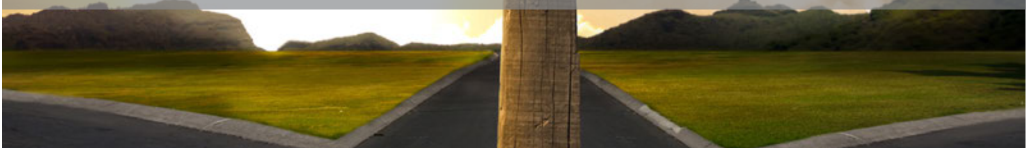

Collateral is king

Industry initiatives to boost access to collateral in Asia dominated the second half of 2014. Mark Dugdale and Becky Butcher report

Post-trade providers Euroclear and Clearstream each made moves to boost access to collateral in Asia in 2014.

Euroclear and Standard Chartered Bank commemorated the launch of their joint optimisation initiative at the Euroclear Asia Collateral Conference in Singapore.

First announced in 2013, Standard Chartered's clients can now use Euroclear's Open Inventory Sourcing capabilities on the global collateral conduit known as the Collateral Highway, which saw a 12.1 percent rise in collateral outstanding in 2014, reaching €883.1 billion.

Under the Euroclear/Standard Chartered agreement, mutual clients are able to use assets held at Standard Chartered to meet collateral requirements arising in triparty repos, central counterparty margining and other financing deals managed by Euroclear via the Collateral Highway.

These assets do not leave the Standard Chartered network, but are used in a virtual single cross-border pool. The solution enables clients to use their assets held in domestic Asian capital markets to tap international financing sources from a wide spectrum of non-Asian counterparties.

George Nast, global head of product management for transaction banking at Standard Chartered, commented: “We are delighted to strengthen our services to clients by partnering with Euroclear.”

“By joining Euroclear’s Collateral Highway and using its unique technology, we are ensuring that customers can now take a holistic approach to collateral management and liquidity provision.”

The anniversary followed the launch of the joint venture between Euroclear and the DTCC, which formed DTCC – Euroclear Global Collateral Ltd to optimise collateral movements for clients of these depositories on a transatlantic basis.

Euroclear has also partnered with Citi and BNP Paribas Securities Services to offer similar cross-border collateral pooling initiatives.

Standard Chartered agreed a similar deal with Clearstream during 2014. They launched a collateral management service for Singapore.

Mutual customers can consolidate their assets held across both institutions into one single pool to perform collateral management transactions with any Clearstream collateral receiver.

The service is part of Clearstream’s integrated collateral management offering, the Global Liquidity Hub.

Assets held by a customer in an account with Standard Chartered in Singapore are automatically moved to a Clearstream account at Standard Chartered when they are needed, thereby relieving customers of manual collateral transfers and allocations.

These automated procedures can be used to allocate collateral held in Singapore to cover global exposures with any counterparty in Clearstream. The automated collateral allocation is performed in real-time and only up to the required amount.

In addition, the system also identifies and allocates the ideal collateral, meaning the cheapest collateral option to match the underlying exposure requirements. When the assets are required for local settlement in Singapore or are no longer needed for triparty purposes, they are returned automatically to the customer’s settlement account at Standard Chartered.

Nast commented: “I am pleased that mutual customers of Standard Chartered and Clearstream are now able to optimise their inventory held in custody with us in Singapore, by seamlessly and efficiently allocating it to cover their global exposures from a single collateral pool.”

He added: “This greatly streamlines collateral management for Singaporean assets and enables our customers to maximise the use of these assets, thereby overcoming one of the most pressing challenges faced by the industry today—collateral fragmentation.”

The collateral management service was initially rolled out for Singapore but other Asian markets, such as Hong Kong, will follow.

In addition to the collaboration with Standard Chartered, Clearstream also partnered with Singapore Exchange (SGX) under the Liquidity Hub Global Outsourcing service, which will bring a collateral management solution to the Singaporean market as a whole. Under this partnership, SGX offers Clearstream’s collateral management services to cover domestic exposures in Singapore.

On the collateral front, InteDelta paired up with Singapore-based collateral, clearing and post-trade consultancy Deriv Asia to bring its collateral management services to the Asia-Pacific financial market.

UK-based InteDelta offers intelligence, organisational and risk management services, which it will combine with Deriv Asia’s liquidity and over-the-counter (OTC) services, along with its experience working in the Asian markets.

Sam Ahmed, the founder and managing director of Deriv Asia, said: “There is certainly a lot of demand in the region for technical solutions around OTC reforms as well as cost-effective operational models and we feel partnering up with InteDelta, which bring tried and tested models from European markets can only really enhance our service levels and bring a wider range of highly developed offerings to our existing platform."

This partnership followed InteDelta's agreement with North American research consultancy Finadium, and is part of a plan to make services accessible for the global market.

Nicholas Newport, managing director of InteDelta, said: "This is certainly a very strategic partnership that has immediate benefits for our Asian clients as InteDelta's advanced offerings can be immediately supported by Deriv Asia's on-site presence in the region."

Japan has a plan

In Japan, Clearstream teamed up with Sumitomo Mitsui Banking Corporation (SMBC) to develop a collateral management service for their mutual customers.

The deal, using Clearstream's Global Liquidity Hub, will allow firms to consolidate Japanese government bonds (JGBs) held across both institutions into a single pool. Clients will then be able to perform triparty collateral management transactions, using domestically held assets for triparty transactions through the liquidity hub.

SMBC will also have access to services including collateral allocation, optimisation and substitution without moving assets out of their custody locations.

Clearstream already provided triparty collateral management services for JGBs through its international central securities depository (ICSD), but the service was extended to those under custody with a Japanese bank.

The service will allow clients with bonds in Japanese custody to access international markets and other time zones quickly. It also automatically allocates 'ideal' collateral, selecting the cheapest option to match underlying exposure requirements.

When assets are no longer required for triparty purposes, or if they are needed for local settlements in the Japanese market, they will be automatically returned to the customers local settlement account at SMBC.

Stefan Lepp, a member of the executive board and head of global securities financing at Clearstream, said: "The market has long been looking for ways to mobilise JGBs locally to meet the growing global demand for high quality collateral."

"This partnership ... is part of Clearstream's extensive efforts to give our customers access to a top quality, global pool of collateral to meet upcoming regulations, which will mandate increased central clearing and collateralisation of derivative trades, amongst others."

"We are very pleased to have SMBC on board for this pioneering solution to mobilise locally held JGBs to cover globally fragmented exposures. This partnership enables our mutual customers to benefit from the best of both worlds; Clearstream's fully automated global collateral management as well as comprehensive local custodian services by SMBC."

Mitsubishi UFJ Trust International Limited (MUTI) received a boost in 2014 when Moody's Japan K.K. confirmed a stable "A1" long-term issuer rating for the Japanese bank.

The ratings confirmation concluded a review for downgrade that was initiated on 2 December 2014 on MUTI's long-term ratings. The review was prompted by the downgrade of the long-term deposit and debt ratings of its parent, Mitsubishi UFJ Trust and Banking Corporation (MUTB, "A1 stable"), to "A1" from "Aa3". This action in turn followed the downgrade of the Japanese government bond rating to "A1" from "Aa3".

MUTI is the international securities lending arm of MUTB and is highly integrated and harmonised with its parent in terms of its business model, human resources and risk/liquidity management.

Moody's classed MUTI as an "important" vehicle for securities lending outside of Japan, as it is performing the role of securities lending—on an agent basis—for the whole custodial business of MUTB's subsidiary Master Trust Bank of Japan (MTBJ), a role that is indispensible to MUTB's global custody business.

According to Moody's, the probability of MUTI being sold to a third party, even under a stress situation for MUTB, is very low in light of its importance to MUTB's network.

Accordingly, if MUTI should face financial difficulties, it is very likely that extraordinary support would be extended from MUTB to MUTI without regulatory intervention.

South Korea rising

South Korea saw Truston Asset Management begin to standardise its domestic equity post-trade processes with Omgeo Central Trade Manager (CTM).

Omgeo CTM is a post-trade platform for the central matching of domestic and cross-border equity, fixed income, exchange-traded derivatives (futures and listed options) and synthetic equity swaps.

The implementation of Omgeo CTM is in support of Truston's growing domestic equity trading volumes and to reduce manual processes and risk in its broker confirmation and custodian settlement notification processes.

By having an automated central matching and settlement notification capabilities, the asset manager can reduce manual intervention, improve operational scalability and foster trade-processing efficiency. The system will also allow it to improve same-day affirmation rates, lowering risk and enhancing settlement efficiency.

Truston will also enrich its standing settlement instruction (SSI) using Omgeo Alert, a web-based global database for the maintenance and communication of account and standing settlement instruction.

The adoption of Alert allow Truston to automatically share account and SSI data with its counterparties.

Lee Sung Won, head of the management strategy department at Truston, said: "We are pleased to announce our partnership with Omgeo. Since implementing Omgeo CTM and Alert we have seen a significant reduction in our workload, reducing operational risks, resource demands and manual processes in both the confirmation/affirmation SSI data enrichment processes."

"We believe that Truston is now a few steps ahead of its competitors, and we are expecting increased investment opportunities in the near future."

The Depository Trust & Clearing Corporation's executive director of sales and solution delivery for Asia, Nellie Dagdag, said: "This is a natural operational progression, as firms look to implement single post-trade processing platforms across asset classes and markets."

"As South Korea continues to rebound from the effects of the global financial crisis and as volumes grow, we expect to see further adoption of Omgeo's best practice solutions."

Business is booming in China

The combined margin financing and securities lending activity among 115 Chinese securities brokers increased a staggering 341.71 percent between the end of 2012 and the end of March 2014, according to a report from audit firm KPMG.

Its survey of the 2013 financial statements of 115 Chinese securities brokers found that their combined margin financing and securities lending balance increased from RMB 89.52 billion ($14.5 billion) to RMB 395.4 billion ($64.06 billion).

On its own, the balance of margin financing had reached RMB 392.63 billion ($63.62 billion) by the end of March 2014, a year-on-year increase of 144.12 percent.

Securities lending amounted to RMB 2.77 billion ($448.78 million), slightly lower than the end of 2013.

The credit business of Chinese securities firms "grew spectacularly" in 2013, according to KPMG. Margin financing and securities lending has become the biggest contributor, with 84 licensed brokers now permitted to conduct the business.

The balance of margin financing and securities lending on the Shanghai Stock Exchange (SSE)

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For more information please join us at tradingapps.com or email info@tradingapps.com and the Shenzhen Stock Exchange (SZSE) totalled RMB 396.5 billion ($64.24 billion), "up a staggering 343 percent from last year".

The turnover of trades on margin financing accounted for 8.99 percent of the total turnover of the A share market.

Securities Association of China figures showed that brokers' interest income from margin financing and securities lending was RMB 18.46 billion ($2.99 billion) in 2013, accounting for 11.59 percent of the total turnover (4.05 percent in 2012).

This means that margin financing and securities lending were second only to the net income from securities brokerage and proprietary trading.

KPMG said: "We expect there to be large room for growth in the share of revenue from margin financing and securities lending as the business has become a new profit driver, making an increasingly significant contribution to the overall performance of brokers."

The audit firm attributed the "dramatic growth" of margin financing and securities lending in 2013 to "the increasingly diverse" range of eligible securities available on SSE and SZSE. Eligible stocks stood at 711 as of the end of April 2014, which was more than double the number in 2012.

The investment threshold has also lowered gradually, further expanding the scope of eligible investors and attracting more retail investors. By the end of 2013, there were 2.67 million credit accounts registered for margin financing and securities lending, up 170 percent from 2012.

KPMG did note that as the credit business among the Chinese brokers developed, some vied for more business at the expense of compliance, which attracted the attention of regulators.

The China Securities Regulatory Commission conducted two rounds of inspection on margin financing and securities lending, in October 2013 and April 2014, "and discovered a variety of problems", according to KPMG. A number were brokers were later penalised as a result.

"[These] include longer-than-permitted maturities, trading with unqualified clients and delays in mandatory liquidation of clients' positions despite insufficient margins. The steep fall of Changjiu Chemical stocks also highlighted the quality issue among underlying securities."

"The facilitation of healthy growth in the rapidly developing credit business is a challenge faced by both brokers and regulatory authorities. To achieve this, ways must be found to control the default risk … to strengthen credit risk management and

tools, and to expand the financing channels for brokers while balancing business risks."

Hong Kong as a hub

Deutsche Asset & Wealth Management (AWM) opened a new securities lending desk in Hong Kong in order to better service the needs of clients in local Asia Pacific markets.

Vice president Mike Steinbrecher moved to Hong Kong as of 1 September 2014 to provide dedicated Asia Pacific coverage and run daily trading operations. Global coverage, excluding Asia, continues to be performed out of the Frankfurt office.

Dirk Bruckmann, global head of securities lending for Deutsche AWM, commented: "This is Deutsche AWM's first overseas securities lending desk and demonstrates both our commitment to the securities lending business and the importance of Asia as a region to Deutsche AWM."

"The new desk will serve to open up new markets for our business, including Taiwan, that will coincide with the launch of our Hong Kong desk. We look forward to strengthening our relationships with existing borrowers and developing relationships with new [ones]."

Not forgetting Australia

EquiLend also began servicing a new market, after receiving regulatory clearance from the Australian Securities and Investments Commission (ASIC) to operate its securities finance trading platform domestically in Australia.

The platform went live for trading among domestic firms in October 2014 and trades between Australian entities were executed on the platform from the first day of trading.

Australian securities have historically been traded on the EquiLend and BondLend platform via offshore entities. Post-trade services provided by EquiLend and BondLend were already used by domestic Australian market participants.

Brian Lamb, CEO of EquiLend, said: "We are pleased to be able to offer our trading services to domestic firms in Australia, who now have access to the efficiencies and automation EquiLend brings to securities finance market participants around the globe."

Due to the market's size and maturity, EquiLend anticipates Australia being one of the most active markets on its platform in the Asia-Pacific region. EquiLend also launched domestic trading services in the South African market earlier in 2014, adding to its existing operations in the US, Canada and Europe.

Set up and thrive

Trading in Asia requires excellent navigational skills, says Northern Trust's Sunil Daswani. Mark Dugdale reports

How would you describe securities lending activity in Asia today?

Investment growth within the hedge fund industry continues to gather momentum in Asia, largely driven by institutional investors seeking higher returns to offset suppressed fixed income yields in the current environment. However, not all of this growth has necessarily translated into increased securities borrowing and lending activity in Asia, largely a function of the nature of underlying strategies.

Long/short funds have remained the most successful strategies to date, and while historically they have tended to drive volumes, the majority of these funds maintained a net long bias as markets continued to rally throughout 2014, most notably Japan. Volumes have therefore remained largely flat, although there have been some noticeable shifts in focus within the region, making way for a more optimistic 2015.

Changes in demand from Hong Kong securities and into Japanese securities were most noticeable. As the 'consensus short' to a slowing Chinese economy dissipated, hedge funds were welcomed by the inception of Abenomics, which made way for growth in exposure to Japan, albeit with a long bias. Following a significant market rally, the perception now is that Japan is more conducive for fundamentals-based stock picking strategies, rather than high beta exposure, which should benefit lending activity in 2015.

There are also expectations for increased corporate deal activity, which has already been evident in more frequent capital raisings. Beyond Japan, demand has continued to gravitate towards the emerging market space in Asia, most prevalently in Taiwan, which remains the most attractive market from a potential revenue stream perspective. Notably, however, regulators in South Korea lifted the covered short sale ban on financial securities in late 2013, having imposed this in the wake of the financial crisis. While this did not stimulate demand in the short term, sentiments are for this to benefit securities lending in the long term, as it allows funds to deploy their strategies more effectively.

Are there any upcoming regulatory changes that may affect the securities lending environment?

Although the extent to which pending global regulation will affect the securities lending business remains uncertain, the industry is positioned in anticipation of imminent changes, the effects of which are already evident in Asia.

From a borrower perspective and specifically within the context of Basel III effective 2015, the most noticeable change has manifested within the collateral space, as equity finance desks have increasingly been leveraged as the vehicle to drive balance sheet optimisation in an effort to reduce funding costs and minimise capital charges.

In practical terms, not only has this demanded increased flexibility from lenders in the types of collateral accepted, it has also driven a change in the nature of trading, such as the growth of 'evergreen', or termed structures, to facilitate financing requirements. Lenders have therefore been tasked with ensuring their capabilities are well positioned to secure both existing and future growth, given that higher utilisation rates are generally afforded to those with greater flexibility.

Collateral flexibility also enhances borrower relationships by allowing them to swap collateral preferences as and when their funding requirements dictate.

How did you revamp your securities lending programme in response to the change in the market environment?

Northern Trust's main focus has been in product development. In addition to new reporting tools, we continue to expand our capabilities. These include a broader set of collateral being accepted when lending securities and increasing our counterparty list that we lend to so as to capture pockets of demand that are more strategic in nature. However, mainly in the Asia Pacific, expanding the number of markets we lend in has been both key for borrowers and beneficial owners, because it provides incremental revenue to them for lending their securities.

Of the markets that are operational, Taiwan continues to offer the most attractive returns for clients on a relative basis, although spreads have recently been eroded for two reasons. Firstly, Taiwan's supply curve continues to mature as agent lenders pursue the launch of new clients into the market, thus diluting overall fees. Secondly, restrictive short sale quota rules have constrained the ability for hedge funds to deploy selected strategies in scale, largely relative value-type funds.

The Indonesian Clearing and Guarantee Corp is making strides in developing a viable platform. It hopes to be able to launch next year. Borrower demand is indicatively robust and should be a lot deeper than other less developed markets, largely because Indonesia offers greater liquidity to hedge funds, allowing them to better deploy strategies effectively.

What sort of market factors should we look at to detect the next trend in borrower demand?

Undoubtedly, equities remain the dominant asset class from a securities lending perspective in Asia, and this is likely to remain the case for some time to come. However, demand for fixed income securities is growing and is likely to gather momentum as global regulation begins to materialise. Basel III is driving borrowers to optimise their balance sheets and pursue the collateral transformation ethos, which is encouraging increased demand for fixed income financing transactions out of the region. While activity remains modest in its current form, this is likely to gather prominence over the next few years ahead of Basel's implementation.

Demand for regional fixed income coverage is also being driven by increased Asia-based hedge fund flows, which require trade execution during local hours rather than via London at a later time.

What are Northern Trust's capabilities in collateral management?

There is no doubt that securities lending provides the type of framework that will help locate and provide eligible collateral. Securities lenders will therefore continue to be a central part of the process as they facilitate the collateral supply and find new sources of eligible assets to support the potential collateral shortfall.

They will also be able to continue to increase returns generated by lending high quality liquid assets. This will be particularly true when the assets' lending value increases due to the collateral shortfall being big enough to force up the gross margin received from these types of lending trades.

Understanding where the loaned asset resides and having sight of it at all times will be essential, especially outside of the custody network and at the global clearing member or the central clearinghouse. Securities lenders will therefore need to be able to offer downsteam asset segregation all the way to, and including the central clearinghouse, as part of the loan deal.

They will also be required to recall and substitute assets intra-day and ensure the process is 100 percent settlement failure-free, so they can

guarantee access to their own highly liquid and high quality assets when they need them most.

At Northern Trust, we recognise the need to provide further flexibility to support clients globally to meet the differing appetite of asset owners for securities lending in a centrally cleared environment, and so have launched a suite of collateral and liquidity solutions that build on our existing collateral management capabilities.

The structure gives asset owners increased security and transparency, enabling them to lend assets for use in the clearing lifecycle with confidence that those assets are retained within their incumbent custodian and agent lender. This could drive asset owners to gain approval from investment committees to re-approach lending of assets.

What challenges does the industry face going forward?

Challenges include the lack of regulatory harmony across regional jurisdictions, specifically the impact of settlement rules on securities lending. While operating an 'offshore' lending business is relatively uncomplicated in markets such as Hong Kong, there are unique challenges in markets where regulation remains complex, such as Taiwan. Typically, this may require lenders to involve clients in more unconventional ways, such as pre-trade notification, for example, which ultimately constrains the pace of growth in supply from securities lending within that market.

However, these challenges do positively present revenue opportunities for those lenders and their agents such as Northern Trust, which are able to successfully navigate existing rules and achieve first mover advantage, allowing their clients to capitalise on higher spreads.

Importantly though, it is essential for lenders to adopt comprehensive risk management policies in such markets, to allow for the maximisation of returns balanced with the mitigation of settlement risk. **SLT**

"Equities remain the dominant asset class from a securities lending perspective in Asia, and this is likely to remain the case for some time to come"

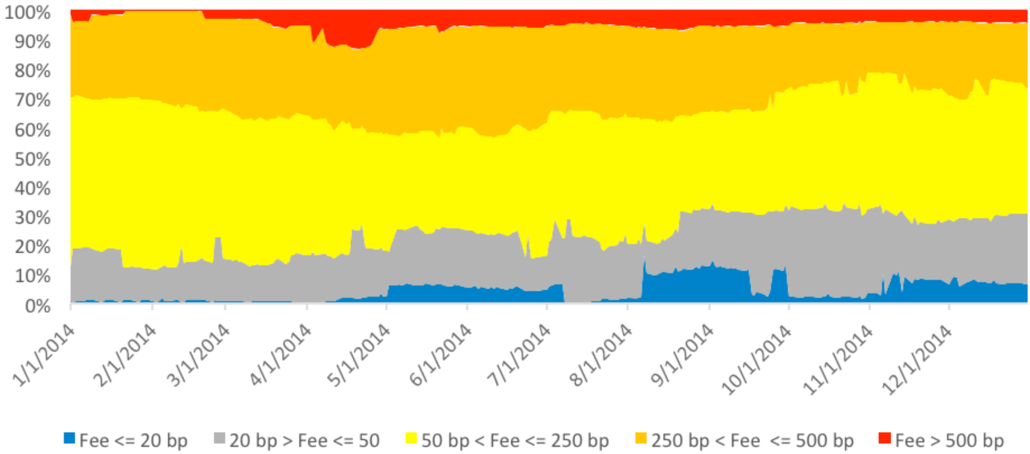
Sunil Daswani, international head of client relations, Northern Trust

Home or away: where are the wins coming from?

DataLend director Chris Benedict analyses securities lending in Asia and discovers an onshore versus offshore price dichotomy

Asia has been one of the hottest regions in the securities finance market for quite some time. Two thousands and fourteen saw a daily average on-loan balance of $109 billion for Asian equities, while fees to borrow those equities averaged a warm 107 basis points (bps) for the year. Taiwan and South Korea represent two of the hottest countries in that region. Taiwan equities saw a daily average on-loan balance of around $7 billion with volume-weighted average fees (VWAFs) of approximately 192 bps in 2014. Meanwhile, Korean equities had a daily average

Figure 1: Taiwan equities—percentages on loan by fee



on-loan balance of $7.78 billion, with VWAFs of around 171 bps.

Under the surface of this aggregate data lies an interesting dichotomy in fees to borrow individual securities in Taiwan, South Korea and other countries in the region.

This stems from local regulatory and fiscal matters that can create a difference in fees to borrow a security sourced from onshore lenders located within the country of primary exchange versus obtaining shares from larger international agent lenders.

Local lenders often require a greater degree of collateral margin to collateralise a securities finance transaction, from 120to 140 percent of the contract value.

Onshore stock in these markets also tends to be highly callable for corporate actions and dividends, thus limiting the ability for prime brokers to lock in longer-term trades for their clients.

Because of these factors, borrowers can often negotiate lower fees from onshore lenders versus their offshore counterparts, which generally have easier margin requirements and

Figure 2: South Korea equities—percentages on loan by fee

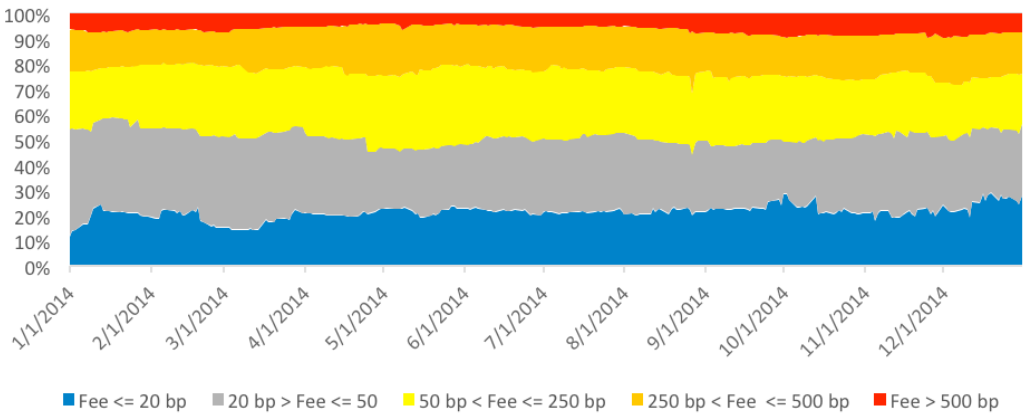


Figure 3: Acer Inc VWAF—all trades versus security price, six months

fewer mandatory callable events. This, combined with limited supply from offshore lenders, makes transacting with onshore lenders in these markets very attractive for borrowers.

As a result, we've seen fees in several South Korea and Taiwan securities show a large variance between being sourced from onshore (local) versus offshore (international) lenders.

Take for example Acer Inc, a hot Taiwanese technology hardware and equipment company with a VWAF of approximately 607 bps and 81 percent utilisation, as of early February 2015.

When we analyse each transaction and determine where the loan originated from (an onshore or offshore lender), we can then recalculate the VWAF by location.

We show that the pricing results between the two are extremely different. Borrowers paid a VWAF of only 460 bps from local lenders versus a VWAF of approximately 650 bps from offshore lenders.

Figure 4: Celltrion VWAF—all trades versus security price, six months

Figure 5: South Korea onshore versus offshore average fees and balances 2014

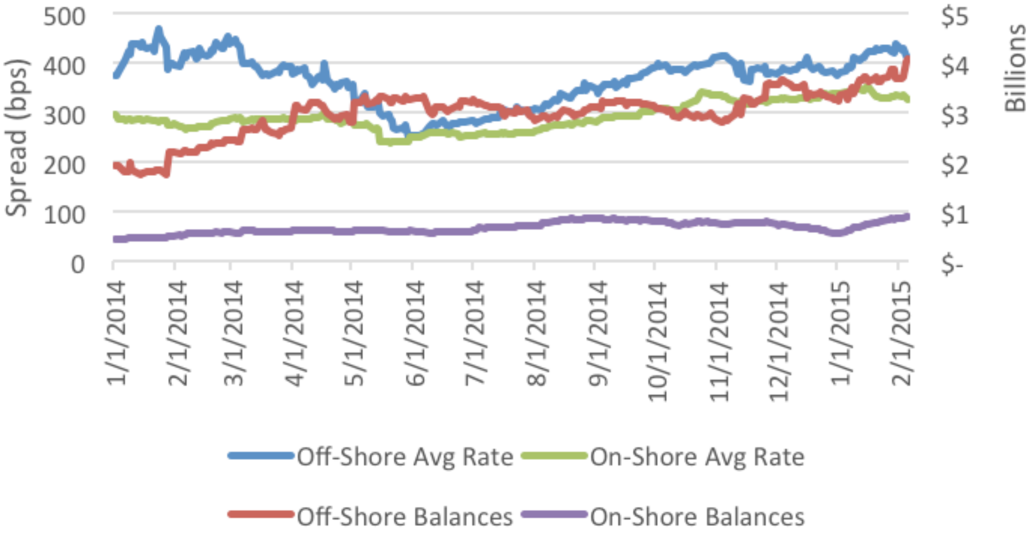
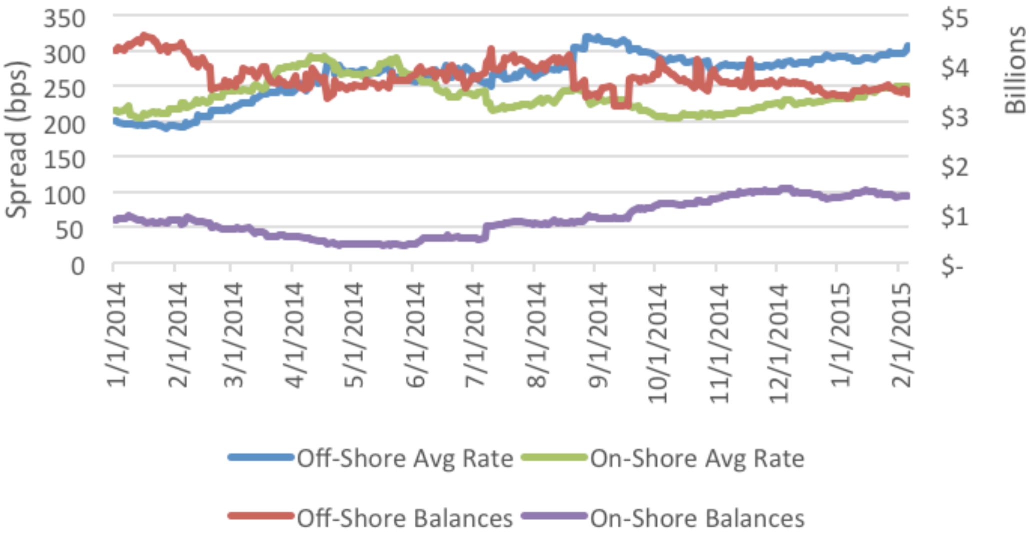
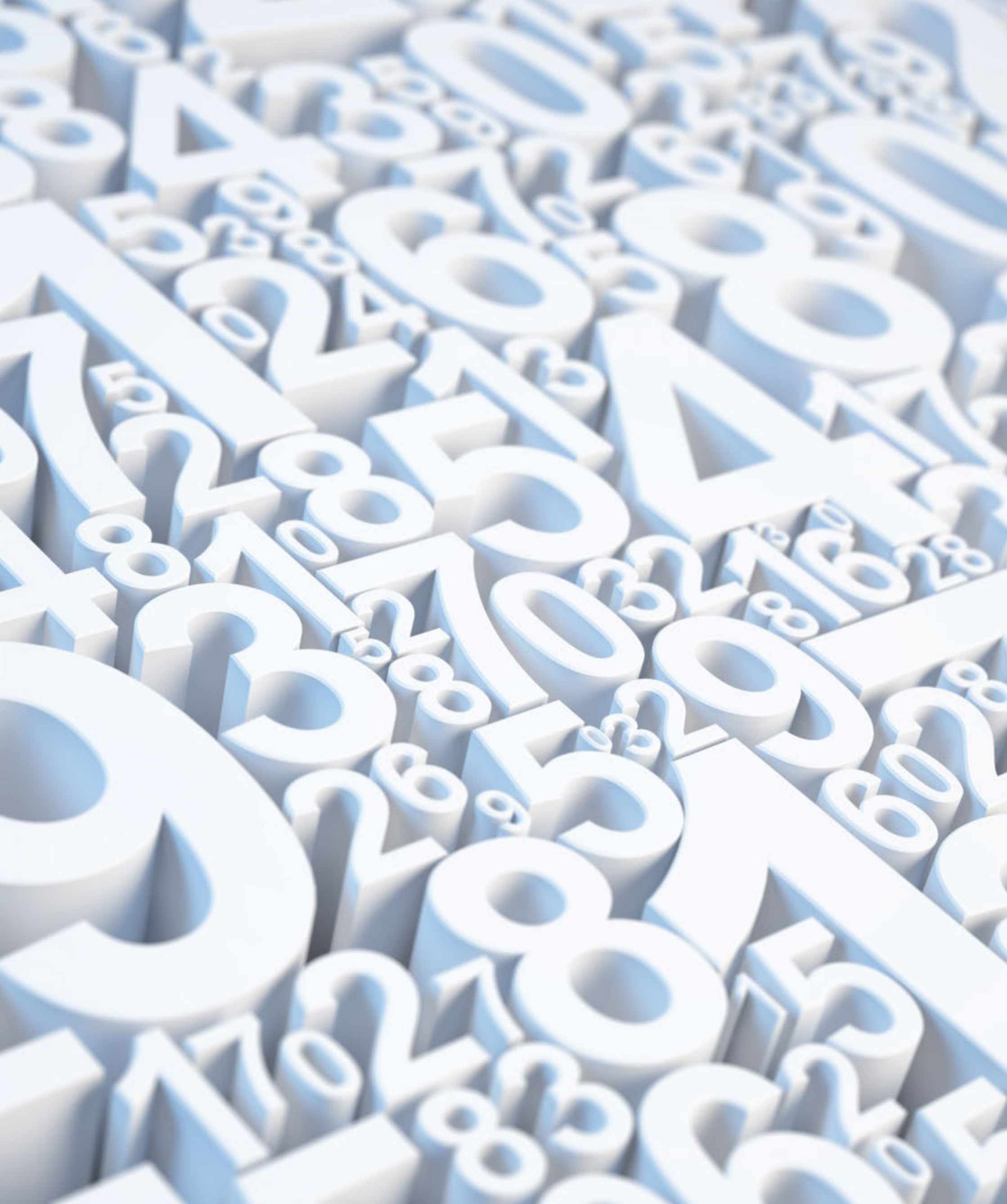


Figure 6: Taiwan onshore versus offshore average fees and balances 2014



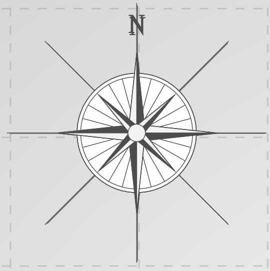
Another example is Celltrion, a Korean stock that has been very hot and heavily traded in the securities finance market in recent years. Fees were around 1250 bps with a utilisation of 73 percent recently.

When we view Celltrion's onshore versus offshore transactions, we show that onshore transactions had a VWAF of just over 900 bps versus offshore trades with a VWAF of 1307 bps. DataLend is building an onshore versus offshore price discovery mechanism for certain markets where this dynamic exists, which will help borrowers and lenders alike better price securities lending transactions in these challenging but very active and growing markets.



Asia’s assets

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



HONGKONG

On Loan Value: $29,721,142,269.97

Total Lendable Value: $297,546,955,003.01

Utilisation: 9.99 percent

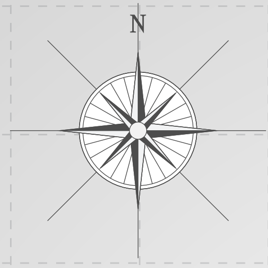
On Loan Value for Equities: $29,693,176,282.61

On Loan Value for Fixed Income: $27,965,987.36

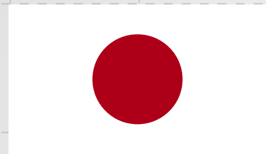
Fee: 143.31 basis points

Number of Unique Securities: 686

Source: DataLend, 1 January to 31 December 2014
(Currency in USD and all figures are averages)



JAPAN



On Loan Value: $57,110,330,826.08

Total Lendable Value: $468,407,658,646.29

Utilisation: 12.19 percent

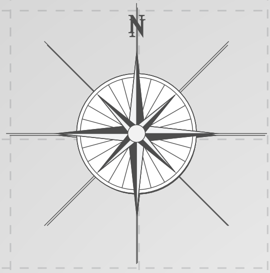
On Loan Value for Equities: $44,817,045,311.41

On Loan Value for Fixed Income: $12,293,285,514.68

Fee: 61.48 basis points

Number of Unique Securities: 3,120

Source: DataLend, 1 January to 31 December 2014
(Currency in USD and all figures are averages)



SINGAPORE

On Loan Value: $3,694,280,336.88

Total Lendable Value: $43,792,573,030.11

Utilisation: 8.44 percent

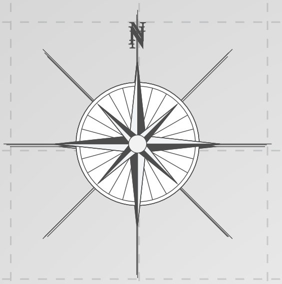
On Loan Value for Equities: $3,665,871,613.95

On Loan Value for Fixed Income: $28,408,722.92

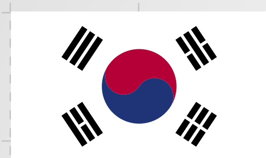
Fee: 99.84 basis points

Number of Unique Securities: 252

Source: DataLend, 1 January to 31 December 2014
(Currency in USD and all figures are averages)



SOUTH KOREA



On Loan Value: $8,190,968,022.60

Total Lendable Value: $111,344,969,844.10

Utilisation: 7.36 percent

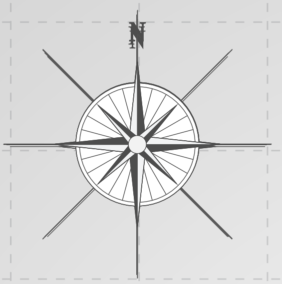
On Loan Value for Equities: $7,810,126,056.87

On Loan Value for Fixed Income: $380,841,965.73

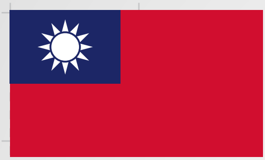
Fee: 161.49 basis points

Number of Unique Securities: 1,364

Source: DataLend, 1 January to 31 December 2014
(Currency in USD and all figures are averages)



TAIWAN



On Loan Value: $6,976,228,714.26

Total Lendable Value: $49,794,193,993.87

Utilisation: 14.01 percent

On Loan Value for Equities: $6,976,110,010.57

On Loan Value for Fixed Income: $118,703.69

Fee: 191.72 basis points

Number of Unique Securities: 967

Source: DataLend, 1 January to 31 December 2014
(Currency in USD and all figures are averages)

Connection permeated

Wait-and-see is how foreign investors are approaching China, while rule harmony is the requirement elsewhere, according to BNY Mellon's Paul Solway. Mark Dugdale reports

Margin financing and securities lending markets in China are growing—is this what you're seeing, and why?

While access is growing, we are still seeing foreign investors waiting to see how the market develops.

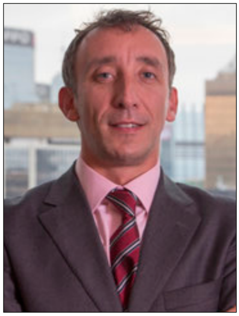
The Hong Kong-Shanghai Stock Connect platform is open and has a dynamic approach to its expansion: global, equal and transparent participation are key aspects to its success.

How else can securities lending be opened up in China?

A potential route could be the creation of a rule-driven model similar to other ID markets such as South Korea, whereby offshore

The Hong Kong-Shanghai Stock Connect platform is open and has a dynamic approach to its expansion: global, equal and transparent participation are key aspects to its success

Paul Solway, regional head of securities finance, Asia Pacific collateral management, BNY Mellon



participants could replicate and leverage from existing infrastructure and investment. This could creating the fastest route to market.

With the Stock Connect scheme up and running, how will the programme contribute to interest in A shares?

Market liquidity is enhanced with access to an efficient and workable lending platform, either for short-term settlement purposes or supporting ongoing investment strategies. Usually, buy and hold strategies only work well a rising market.

Outside of China, where in Asia are you seeing interest in securities lending business, and what are the prevailing strategies?

A theme that has carried forward from 2014 is the mature markets of Japan and Hong Kong. Large-cap liquidity themes are prevailing over the opportunistic smaller markets of South Korea, Taiwan and Malaysia.

Related to this theme could be the rule-driven models of the securities borrowing and lending platforms of each of these emerging markets: short-sell rules/quotas change the daily dynamics of trading, especially for investors who are outside of the time zone. Leaving orders that have additional execution constraints cause investors to look to other markets for alternative opportunities, where possible.

Synthetic structures also offer more timely solutions that have contributed to lower securities borrowing and lending volumes as a result. The dominant long/short strategies across Asia require timely executions, in order to position portfolios quickly and effectively, especially as quantitative/algorithmic programme trading continues to evolve across the region.

What would you like to see happen in terms of infrastructure and regulatory developments this year?

Collateral flexibility, commercial margins, dynamic quotas and short selling rules all have a direct correlation to securities lending volumes.

Having securities borrowing and lending models take into account the ever-changing regulations will ultimately allow investors to successfully navigate the market landscape in terms of opportunity and due diligence.

No two markets have exactly the same rules, which ultimately drives up costs and reduces participation in some cases.

Harmonising these differing rules over time will certainly help improve connectivity—this could eventually lead to a multi-country model within a region that is both efficient and transparent. If that happens, it will mean exciting investment opportunities for all types of investors, large or small in the long run. **SLT**

A jurisdiction in demand

Bilateral Hong Kong is China's gateway, and among securities lending's favourite places to do business. Brian Bollen reports

Hong Kong is quite simply one of the most active securities lending markets in Asia, at least in equities (bond lending and borrowing is less common), according to David Raccat, head of markets services, which includes equity and agency lending, at BNP Paribas Securities Services. It is also one of the most profitable.

Raccat describes Hong Kong as very regulated in terms of equity cash markets and says that securities lending is very important to avoiding buy-ins if securities are not in the appropriate account at the appropriate time in the trading cycle. Securities lending, as the traditional argument goes, provides additional efficiency and liquidity and helps to avoid fails. There are other main features of the market, particularly in relation to merger and acquisition activity and convertible bonds issues. This is as true of Hong Kong as of any other market in which securities lending is embedded.

The global trend towards massive deleveraging is clearly affecting business, however, adds Raccat. In an era characterised by the increase in supply from new lenders seeking to boost overall returns in an extended era of ultra-low interest rates and by a fall in demand on the part of potential borrowers as regulators impose additional layers of complexity, margins will inevitably shrink. And as this happens in Hong Kong and Japan, eyes will inevitably turn to perceived opportunities in other, higher margin countries in the region.

For Sunil Daswani, a senior vice president responsible for all of Northern Trust's global clients (excluding the US and Canada) that participate in securities lending, Hong Kong continues to drive a significant part of Asia's securities lending activity. In particular, it remains an attractive investment destination for hedge funds.

With its accommodative access in allowing exposure to the mainland via H shares, Hong Kong affords investors the opportunity to trade around China's slowing growth rate, structural and policy changes, notes Daswani. Directional demand is notably concentrated within those sectors perceived to be most affected by these themes, including commodities, retail and property, he says. Relative value strategies have also been active in A/H share arbitrage opportunities, particularly ahead of the Shanghai-Hong Kong Stock Connect launch later last year, which drove conviction on views that spreads would return to parity.

"Given Hong Kong's deep liquidity profile coupled with increasing amounts of capital flowing into Asia focused hedge funds, we expect demand to remain robust in Hong Kong during 2015," he says.

While there has been little or any notable change in regulation, there have been obvious shifts in the way counterparts have positioned their businesses to comply with capital rules under Basel III, he observes. This has manifested in increased demand for certain types of term transactions, providing opportunities for those lenders able to facilitate the trade.

"For example, investment banks are now increasingly seeking opportunities to accommodate the net stable funding ratio in an effort to secure a more reliable and long term funding profile," says Daswani. "This has driven demand for longer duration evergreen structures against a wider set of collaterals. Additionally, the prevailing focus on balance sheet usage continues to drive borrowers to prioritise transactions that minimise capital costs, such as the use of synthetic routes to market (swaps), which typically attract lower RWA (risk weighted assets), given a netting benefit."

The borrower landscape is also undergoing change as a function of Basel III and the increased scrutiny around capital usage. Prime brokers are reassessing the profitability of their hedge fund clients, such that strategies with modest returns relative to balance usage are being rationalised. Ultimately, this is providing opportunity for smaller prime brokers to win clients that may have been turned away elsewhere. From a lending perspective, this allows for a more diverse array of borrowers, which should drive increased opportunities for inventory owners.

From a demand perspective, borrowing continues to be driven by a broad range of hedging strategies, most notably from underlying equity long/short funds. However, the emergence of regulation has given birth to expanded types of demand as banks continue to seek transactions that benefit their funding and capital profiles, rather than support underlying hedge fund demand.

Asia as a region is undoubtedly the most compelling growth prospect for the industry, although the ability to tap new markets often remains operationally challenging with inherent operational risk. However, this presents an opportunity for those providers able to successfully navigate barriers to entry without assuming additional risk for clients, allowing them to reap the benefits of higher spreads while such markets remain relatively immature.

Madalin Prout, senior relationship manager at SunGard's Astec Analytics, agrees with the consensus that Hong Kong is one of the most established securities lending markets in Asia.

"Many global banks have regional headquarters here and, of those that don't, the majority also have local securities borrowing and lending desks in Hong Kong," she says. "Activity is heavily weighted towards equities lending and borrowing and it is largely a specials market with over 50 percent of volume on loan having a cost to borrow greater than 50 basis points. The average cost to borrow Hong Kong securities remains relatively high at 1.70 percent, which increases transaction costs for short sellers, limiting their opportunities and consequently, the volumes on loan in this market."

As a Special Administrative Region, Hong Kong is viewed by China as its gateway to the rest of the world. The recent launch of the Shanghai-Hong Kong Stock Connect trading link is an important step in the opening up of this market. In addition, there are increasing murmurings of a new trading link into Shenzhen being approved and launched in 2015 that could open up a raft of opportunities in the more volatile Shenzhen market.

Covered short selling of eligible China Stock Connect securities is due to be rolled out on the Shanghai-Hong Kong Stock Connect from February 2015, subject to proposed requirements including price and quantity restrictions, pre-trade checking and reporting obligations. In terms of outright trading volumes, the link has been gathering momentum since its relatively slow start in November 2014, but regulatory hurdles have so far kept many global players off the platform.

The majority of the large agent lenders are present in the Hong Kong market and have been so for many years, with established programmes lending their international clients' Asian holdings. These players account for a significant proportion of the market.

However, an emerging group of lenders that are increasingly focusing on investing in, and building out, their lending programmes are the domestic and mainland Chinese brokerage firms. As a result of their retail margin trading activities, these firms have significant inventories of securities that they are recognising could earn additional revenues through securities lending, at the same time allowing them to transform the securities held as collateral back into cash. Interestingly, these brokers often have access to securities that may be difficult to borrow from more established lenders, and are therefore highly sought after by borrowers.

Unlike other Asian markets such as South Korea and Taiwan, securities borrowing and lending in Hong Kong is largely conducted on a bilateral basis. The Hong Kong exchange does track short selling information on an intra-day basis but is not an active participant in the securities lending transactions. The increasing momentum of central counterparties in both the US and Europe means that CCPs in Hong Kong cannot be ruled out in the future, although there appears to be little appetite for this at present, concludes Prout. **SLT**

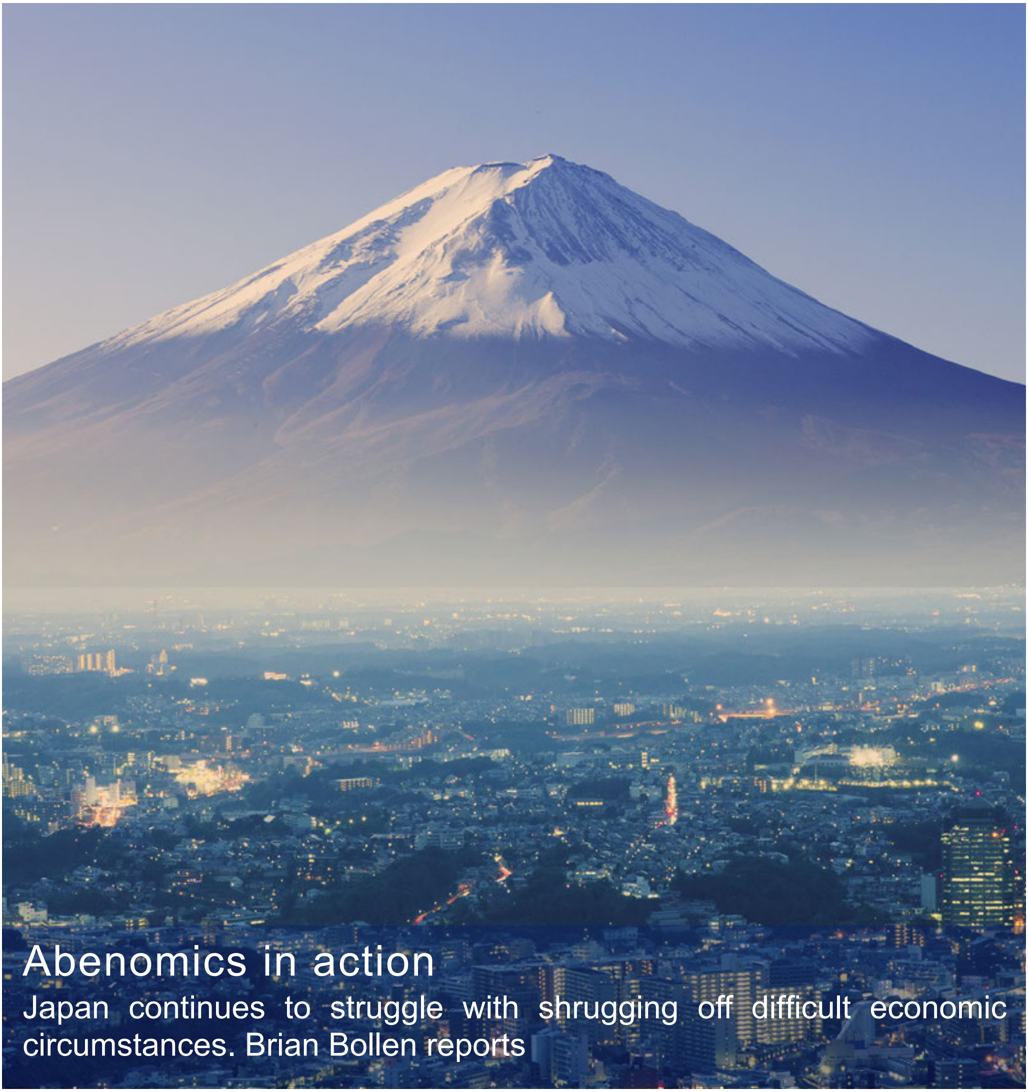
Hong Kong: express briefing

Borrowing demand is driven very much by directional views and sector interests. So as investor and analyst views on the economic outlook for the market change, these views generate purchasing or shorting activity. For example, borrowing demand for Hong Kong was higher in 2013 on the back of some negative analyst commentary on some companies, whereas 2014 generated less news.

Another factor driving borrowing demand is arbitrage trading between China A shares and Hong Kong H shares. A shares trade at a premium to H shares, so trading opportunities occur as the premium contracts or widens. This creates borrowing demand.

The recent launch of Shanghai-Hong Kong Stock Connect is expected to lead to convergence, but this is likely to take time to materialise. There are also changes to which stocks are eligible for short selling and this creates demand for newly eligible stocks and stops it for stocks removed.

Roy Zimmerhansl
Head of securities lending
HSBC Securities Services



Abenomics in action

Japan continues to struggle with shrugging off difficult economic circumstances. Brian Bollen reports

The impact of 'Abenomics' continues to have a profound effect on securities lending demand in Japan, says Sunil Daswani, a senior vice president responsible for all of Northern Trust's global clients (excluding those in the US and Canada) who participate in securities lending. The country's aggressive quantitative easing programme has largely driven hedge funds to maintain a net long bias, which has not benefitted securities lending volumes to date, he adds.

With expectations of further easing and a meaningful shift from domestic bonds into equities by Japan's public pension fund, this theme is unlikely to change in the near term.

However, if Japan's policies prove ineffective at reviving the economy out of the deflationary doldrums, the market could potentially witness increased short interest. Securities lending demand has not, though, been entirely lacklustre, he adds.

"Directional strategies focused on companies perceived to be over-valued have sustained robust revenue streams, particularly those within the online gaming space amid increased competition," says Daswani.

Madalin Prout, senior relationship manager at SunGard's Astec Analytics, describes Japan, unequivocally, as the biggest securities lending market, by volume, in Asia. "It is considered to be a mature market with 'sensible' regulation," she comments.

"Activity has been increasing over the last two years, driven mainly by increases in bond lending and borrowing, although the average cost to borrow Japanese securities has remained relatively stable at around 55 basis points."

While volumes on loan are heavily dominated by fixed income, this is somewhat deceptive, as Prout calculates that more than 90 percent of lending revenues are generated through equities.

"Most investors in Japan require securities back to exercise their voting rights (known as callable securities), therefore lenders who are prepared to lend securities on a non-callable basis are able to charge a premium for these loans," she adds. As Japan is a dividend market, volumes often peak in September and March.

The problems with which the Japanese economy has been struggling for the past two decades are well documented, as it slipped into recession in Q3 2014, despite Prime Minister Shinzo Abe's 'Three Arrow' plan to revive the economy with fiscal stimulus, monetary easing and structural reform (the 'Abenomics' referred to by Daswani).

There is a growing sentiment among analysts that international investors are losing confidence in this strategy, as foreign investment in the Japanese stock market fell dramatically during 2014.

However, the TOPIX index has seen increases from 722 in November 2012 to levels around 1,420 in February 2015, a significant rise by any standards. Indeed, even in securities lending and borrowing, some have observed an increased focus on seeking alpha with many banks increasing their lendable assets since the introduction of Abenomics.

Changes in recent times include, in January 2014, the introduction of delivery versus payment (DvP) by the Japan Securities Depository Center (JASDEC) in an effort to reduce settlement risk in securities lending transactions, notes Prout. This change brings the Japanese market in line with other established global markets, she adds.

In November 2013, Japan's Short Selling Regulations were revised, leading to a permanent ban on naked short selling. In addition, a trigger rule was introduced, meaning that the uptick rule only applies once a trigger price has been reached. As a result, short selling activity in Japanese securities increased as firms were able to short sell whether a security's price was moving up or down, thus creating more opportunities in the market.

In addition to the global agent lenders that are present in Japan, there are a number of domestic agent lenders, or trust banks, that are significant players in the Japanese securities lending market. These banks provide both trust and custody services to domestic pension funds, banks and insurance companies, with the majority of their lendable assets originating from the corporate pension funds. Retail brokers are also active lenders in this market, lending assets sourced from their retail clients.

The majority of borrowing in Japan is undertaken by prime brokers and securities companies through traditional securities borrowing and lending transactions. Common motivations include covering shortages to facilitate trading strategies such as hedging and arbitrage opportunities, the prevention of settlement failure, and to on-lend securities to customers.

Other types of borrower in the Japanese market are those using margin transactions. Margin selling (Seido-shinnyo-Uri) for short selling and margin buying (Seido-shinnyo-Kai) for financing are largely undertaken by individual investors through the Japanese Securities Finance Company (JSFC).

The JSFC is a key intermediary in Japanese securities lending. The daily auction process aims to facilitate short position coverage by publishing details of borrowing requirements and inviting bids from lenders in an effort to find the best price.

The JSFC is the counterparty for the majority of margin trades in Japan, although it also undertakes some lending in the securities borrowing and lending market.

Japan is a mature market, with established participants. The newest group of participants is retail brokers, particularly online retail brokers, which have increased their presence in Japanese securities lending over the last decade.

While Asia has a global reputation for an above average risk appetite, and Japan's appetite for risk may have increased slightly in recent years, resulting from the government's more aggressive policy for economic growth, the country is still far from having a 'voracious risk appetite', says Prout.

In securities lending, some public pension funds still refuse to participate directly in securities lending due to the reputational risk they face in being associated with short selling, she observes. "This speaks to the Japanese values and culture that are very much alive and well, including in the financial services sector, today."

She points to more practical examples that show the market is not prepared to take unnecessary risks: the introduction of DvP in 2014, showing that the market is not willing to accept this exposure, and the high levels of collateral required in margin trades (130 percent of market value).

Such overcollateralisation is unusual in established markets and is indicative of an aversion to risk, she suggests. The viability of cash reinvestment in a near-zero interest rate environment is also worth considering when examining business in Japan. Although the use of cash as collateral in securities lending appears to be declining slightly across the global markets, value on loan against cash and non-cash collateral is still evenly split at close to 50:50, calculates Prout.

"Moreover, if we take into consideration cash pool collateral, which is treated by the industry as though it were non-cash, cash still appears to be the favoured collateral in securities lending," she says.

"And where there is cash being used as collateral, cash reinvestment will have its place. While there is regulation in place requiring some US beneficial owners to take cash as collateral, the requirement for cash reinvestment will remain by necessity. Furthermore, economies are cyclical in nature and as and when interest rates begin to rise again, so too will the attractiveness of cash collateral and cash reinvestment." **SLT**

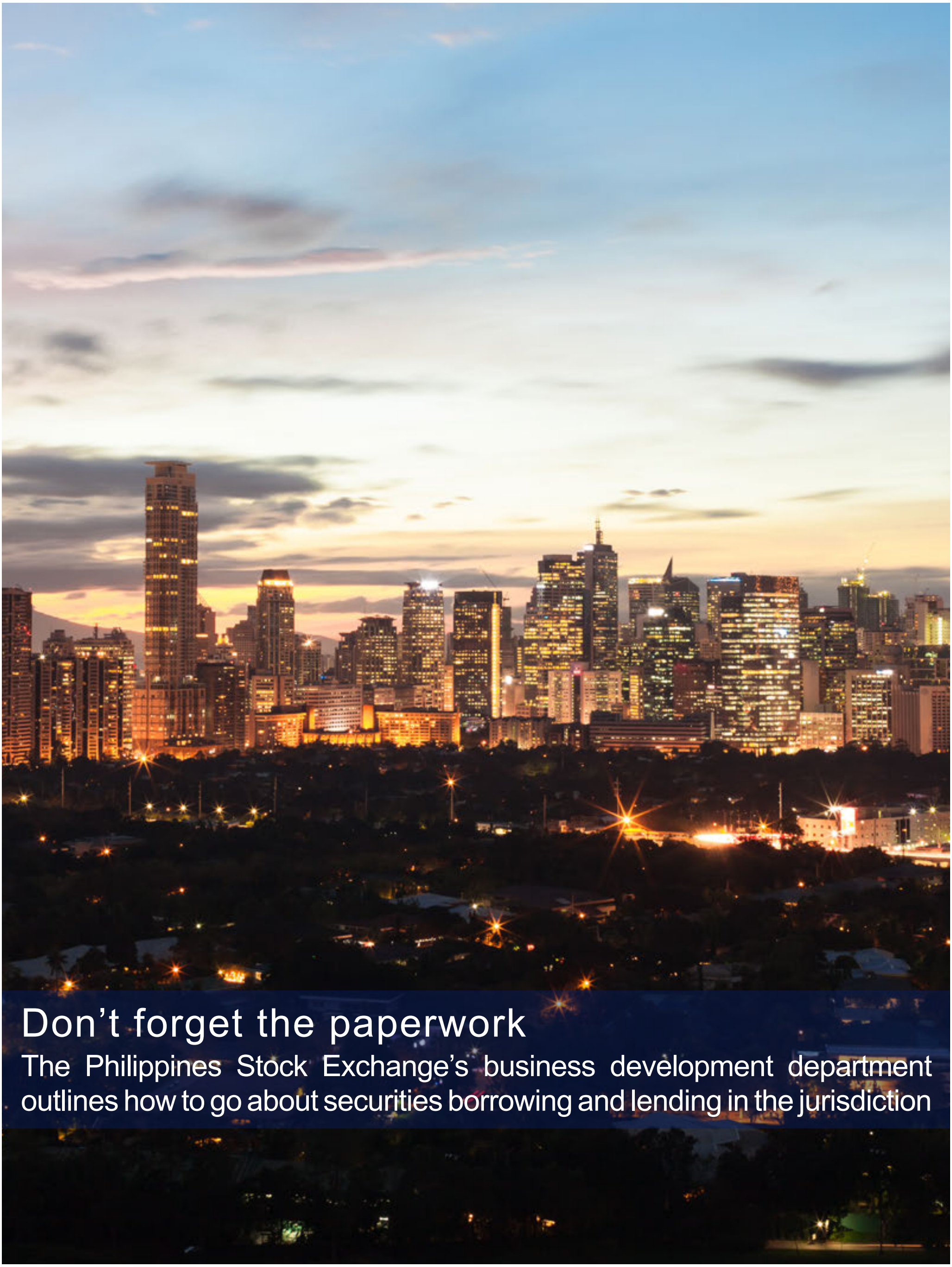
Japan: express briefing

Japanese equity borrowing demand is largely event-driven with capital raising, M&A activity and corporate news. While M&A deals in Japan dropped off in 2014 from the previous year, capital raising continues to grow in Japan. Rights issues, secondary offerings and convertible bonds all contribute to steady general collateral borrowing demand throughout the year, with a few specials that generate significant income.

The short selling reforms introduced at the end of 2013 have improved market liquidity and short selling has been a significant proportion of market turnover at both the institutional and retail investor levels. Long/short equity funds are key participants in this increased activity in either direction, depending on market conditions and outlook.

Cash reinvestment opportunities have been limited in the current world of artificially low, or even negative, interest rates. Nevertheless, cash remains an important part of the business, with cash collateral still predominantly used for US securities loans and still favoured by many US lenders. The potential for interest rate hikes in the US in the near future is influencing reinvestment strategies, reducing investor appetite for longer-dated maturities.

Roy Zimmerhansl
Head of securities lending
HSBC Securities Services



Don’t forget the paperwork

The Philippines Stock Exchange’s business development department outlines how to go about securities borrowing and lending in the jurisdiction

Securities borrowing and lending in the Philippines has been in place since 2006. The programme involves the loan of securities by a lender, which owns or controls them, to a borrower that needs the securities to support settlement obligations or trading strategies.

The lending of securities to a borrower in need of securities for settlement of obligations enhances trading and minimises the risk of failed trades. Shares are transferred from one party to another without change in beneficial ownership.

Through the process, settlement and liquidity of the stock market is improved with the subsequent replacement of the borrowed securities. It also facilitates the development of other trading strategies, such as short selling.

At present, securities borrowing and lending is bilateral or is transacted directly between the lender and the borrower. Alternatively, it can involve an intermediary, usually a lending agent. In the case of trading participants, it is required under the Philippines Stock Exchange (PSE) Rules on Securities Lending for an intermediary/agent to be employed in order for the lender to participate in the exchange's securities lending programme.

Intermediaries and agents provide the advantages of portfolio management, revenue maximisation and risk management. Moreover, the intermediary handles the administrative functions such as preparation of documentation, marking-to-market of collateral and collateral management, monitoring of corporate actions, and preparation of required regulatory reporting.

Rules and regulations

The conduct of securities borrowing and lending transactions in the Philippines is governed by the following:

- Bureau of Internal Revenue (BIR) Revenue Regulations (RR) 10-2006 and 01-2008;
- Securities and Exchange Commission (SEC) Memorandum Circular No 7, Series of 2006; and
- Revised PSE Rules on Securities Borrowing and Lending

The rules and regulations for securities borrowing and lending cover all participants in order to qualify for tax-free treatment provided under the BIR Revenue Regulations and RA 9243. Also, the repatriation of proceeds from securities borrowing and lending transactions involving foreign participants are subject to the guidelines set by the Bangko Sentral ng Pilipinas on repatriation.

Under the BIR Ruling 168-98, a transaction classified as securities borrowing and lending is accorded tax-free status, provided the conditions under the Revenue Regulations No 10-2006 are strictly met and executed by the parties concerned. This means that the transfer of securities from borrower to lender is not considered a sale and so is not subject to taxes such as the stock transaction, documentary stamp and capital gains taxes.

The subsequent sale of the borrowed securities (short sale) is subject to regular taxes, as is income from subsequent transactions, such as interest earned from the reinvestment of cash collateral or the lending fee (in cases of non-cash collateral). Furthermore, the manufactured dividend/substitute payment will be taxed as other income in the hands of the lender, subject to corresponding income tax rates.

Collateral and risk management

In a securities lending transaction, the borrower provides collateral in the form of cash, equity securities or government securities. Collateral is marked-to-market on a daily basis and is increased or decreased as necessary to maintain the agreed margin, or at a value prescribed under SEC Memorandum Circular 7, Series of 2006.

If the collateral is in the form of cash or government securities, the value of the collateral must be maintained at an amount not less than 102 percent of the current market value of the securities borrowed. If the collateral is in the form of equity securities, the value of the collateral must be maintained at an amount not less than 105 percent of the current market value of the securities borrowed.

Cash collateral may be reinvested in a manner consistent with the terms disclosed at the time

of the execution of the master securities lending agreement (MSLA).

Registration procedures

Prior to engaging in a transaction, the borrower will execute its MSLA with the corresponding lender. The MSLA must conform with the template prescribed by the PSE and approved by the SEC. An addendum to the MSLA that incorporates changes and modifications to the prescribed MSLA must also be executed. Templates for both the MSLA and its addendum must be uploaded in the PSE website. Six original copies of both the MSLA and its addendum are to be submitted to the PSE for endorsement to the SEC and the BIR. Section 8(c) of the BIR RR 01-2008 states that the MSLA must be registered with the BIR within two weeks, if executed in the Philippines, and within one month if executed outside the Philippines.

A trading participant acting as a trading participant/agent facilitator will likewise enter into a securities lending authorisation agreement (SLAA) with its client, and as a lender, with the lending agent. An SLAA is not required to be registered with the PSE or BIR but must be kept for inspection and audit by the Capital Markets Integrity Corporation (CMIC).

Six original copies of the MSLA registration form (Form MSLA1a), together with the lenders notification of execution form (Form MSLA1b), must also be completed and submitted to the PSE for endorsement.

The PSE-endorsed documents, including a soft copy of the MSLA and its addendum, must then be submitted to the markets and securities regulation department (MRD) of the SEC for pre-checking and pre-processing. The SEC's MRD will issue a payment assessment form once documentary requirements are complete. The processing/certification fee is PHP 5,000 ($113). A copy of the official receipt must be submitted to the MRD after processing the payment. The MRD will notify the borrower when the certification has been signed and is ready to be collected.

The SEC certification and other supporting documents must be submitted to the revenue accounting division of the BIR and secure the authority to pay. The BIR registration fee amounts to PHP 5,000 ($113). After payment, the MSLA, its addendum, the registration forms, PSE endorsement, SEC certification, and the official receipt from the BIR must be submitted to the BIR's law division.

The borrower is required to submit to the CMIC a certified-true copy of the certificate of registration issued by the BIR within 15 days of its issuance.

Finally, trading participants that intend to conduct securities borrowing and lending, either directly or through a lending agent, must have a securities lending system, as required under Section 6 of the SEC Memorandum Circular No 7 Series of 2006.

Regulatory reporting

Each securities borrowing and lending transaction must be evidenced by a confirmation notice that specifies the details of the transaction, and it must be kept and maintained by both parties.

Trading tarticipants engaged in securities borrowing and lending must also submit to the CMIC, within 15 calendar days after the end of every six months, a monthly summary of ledgers for borrowing and lending.

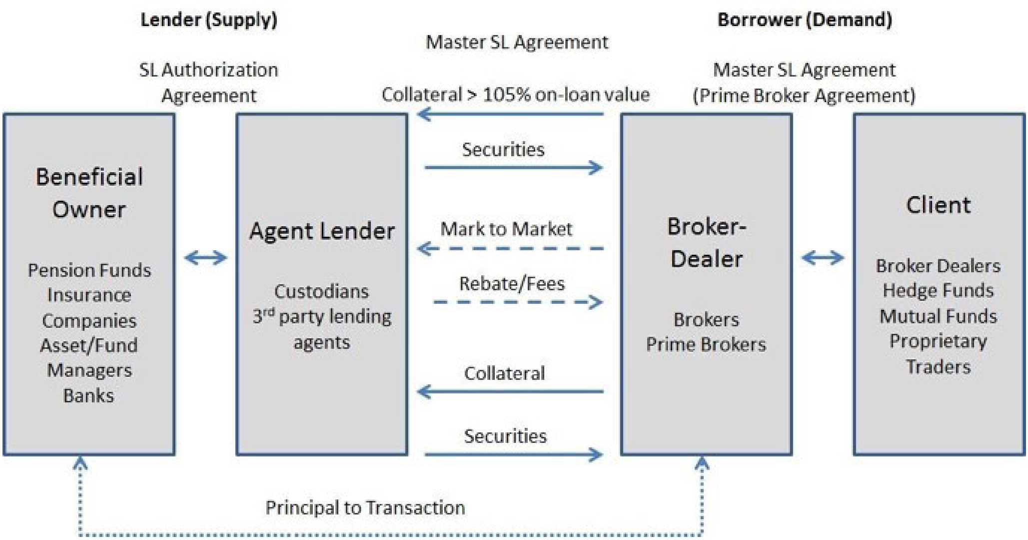
Updates to come

The domestic stock market has yet to experience the full vibrancy offered by securities borrowing and lending given a limited supply.

With the launch of exchange-traded funds and the expected introduction of short selling in the market, the PSE realises the need for increased access to securities borrowing and lending.

Based on the experiences of exchanges in neighboring countries, the securities borrowing and lending facility improved liquidity when institutional investors started to join the programme. Increasing the supply available for securities lending is one of the priority initiatives of the exchange.

The PSE is also working with relevant industry stakeholders to promote securities borrowing and lending in the Philippines. **SLT**



Asia's hub

Singapore is one of the key Asian market for securities lending, as J.P. Morgan's Darren Measures tells Justin Lawson

How would you describe the market in Singapore?

The securities lending market in Singapore is a fully developed product in one of the most sophisticated markets in the region.

Singapore is ranked fifth in the Asia Pacific region in terms of lendable assets available—behind Japan, Hong Kong, Australia and South Korea. The lendable assets, utilisation rate and spread to loans are all comparable for a well developed market, with the primary interest around directional trades, small cap companies and scrip trades on Singapore banks.

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

Yes, that is a fair statement. Demand for Singapore assets has been constrained over the last few years with occasional spikes in activity.

With Asia still developing on the securities lending side, there are obviously a lot of potential lenders in the region—is there an issue of oversupply?

At the moment, we don't see over supply being borne out in lower utilisations and spreads in developed markets in Asia, and indeed, the spreads are holding up well in Hong Kong and Taiwan as more supply comes to market.

The opening up of China could potentially lead to an issue of oversupply, depending on the nature of the regulations allowing stock loan, and the internationalisation of the asset base of Chinese investors in the region, but currently that would be a minimal concern.

Are there any domestic regulatory developments on the horizon?

As a fully developed market, there are no specific developments that we see that could potentially limit the ability to loan assets in the Singapore markets.

What about fund passports, with Singapore expected to benefit the most when they are implemented?

Singapore is already a hub for global asset managers, and the alignment of disparate fund rules via passport regimes will only serve to enhance Singapore's ability to be a hub for that activity in the region.

The ability to amass large pools of investor assets via a single regime, similar to Luxembourg or Dublin in Europe, will only help to bring more global fund managers to the region and internationalise historically isolated investor pools.

There are discussions about the viability of indemnified general collateral balances and how the supply and demand sides will need to change. Is there the same demand for indemnification in Singapore?

Indemnification is a key part of the agent lending offering for lenders in Singapore and across Asia. At a time when some agents are bringing down balances, and reducing the scope of indemnification, we see this as a key differentiator for J.P. Morgan, because we have always taken the capital charges associated with the indemnification of lending into account. To the point where we are actually expanding the breadth and range of collateral, we are willing to indemnify

Have there been changes in how ready lenders are to accept different asset classes of collateral?

Lenders in the region are generally willing to consider all collateral types and structures, which can be indemnified by their agent, where rules allow.

Are ETFs being lent in Singapore?

Singapore lenders will use their international exchange-traded funds (ETFs) for securities lending where the market demand exists, but as a local market, the number of Singapore ETFs being lent is minimal.

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

The market infrastructure and stock borrow and loan processes are more centralised in South Korea and Taiwan, with a few more complexities to negotiate in order to get up and running.

But generally, the ability to operate in the market, and the borrower need for the assets, means that South Korea and Taiwan should be considered as fully developed.

Malaysia is driven more by borrower demand for Malaysian assets in the current market, rather than ability to lend securities as a product, which is similar to the hybrid exchange models used in South Korea and Taiwan.

There was a spike in activity a few years ago, but that has since dwindled to much smaller loan levels.

Currently, Indonesia does not have a viable securities lending programme for international borrowers and lenders, with most of the activity in that space taking place on a synthetic basis.

There are plans to continue the evolution of the product, via the stock exchange. **SLT**

> *"Indemnification is a key part of the agent lending offering for lenders in Singapore and across Asia"*

Darren Measures, head of securities lending product in APAC, J.P. Morgan

Where next?

Emerging markets within an emerging region is a bit of a brain beater, but Taiwan, Malaysia and company are making moves in the business. Mark Dugdale reports

Asia is often called the land of opportunity, but certain jurisdictions in the region offer more pots of gold at the end of the rainbow than others. New markets to consider entering in Asia include Taiwan and Malaysia, with Indonesia, China and India poised to emerge, if and when further infrastructure or regulatory developments are made.

Taiwan: need to know

In Taiwan, a beneficial owner must appoint a local broker as its direct securities borrowing and lending market participant. Also required is the appointment of a local tax agent, because lending fees are subject to Taiwanese income tax.

A lender must also pre-advise sales to ensure a loan recall is settled prior to instructing sales in the market, and ensure that it signs an addendum to its lending agreement covering all of these points. A letter of authorisation must be provided, permitting a local sub-custodian to facilitate lending.

Repeatedly failing to settle sales due to stock not being returned before the settlement date can result in suspension of the lender's trading licence.

Taiwan update: Securities borrowing and lending data from the Taiwan Stock Exchange (TWSE) remains scarce, with the publically available figures last being updated in January 2014.

However, the data, which covered 2013 business, indicated a desire to encourage short selling in Taiwan, as the value of securities borrowed to sell short continued to grow, making a contribution to the liquidity and efficiency of the stock market.

In 2013, the total cumulative value of securities borrowing and lending short sales (including uses in speculation, arbitrage, and hedging), as described by the TWSE, accounted for 2.1 percent of the exchange's total transactions that year.

This figure was also up on 2012 by 14.67 percent, showing that borrowing for the purposes of short selling did not negatively affect fluctuations in the stock market, but in fact significantly contributed to its liquidity.

Malaysia: need to know

Malaysia's system is similar in structure to Taiwan's, with Bursa Malaysia running a central model through which negotiated transactions can be agreed between offshore participants and settled.

There is less demand in Malaysia than in other Asian markets, due to a lack of liquidity brought on by limited supply. Hedge funds have limited focus on Malaysia as a result.

Having said that, the list of securities eligible for short selling has been expanded in a bid to attract offshore participants and boost securities borrowing and lending business in Malaysia.

Lenders must practice caution over settlement failures and ensure the timely notification of sales, as penalties can be significant.

Malaysia update: The jurisdiction expanded the list of eligible securities for borrowing and lending, as well as those that can be used as collateral for transactions, in January 2015.

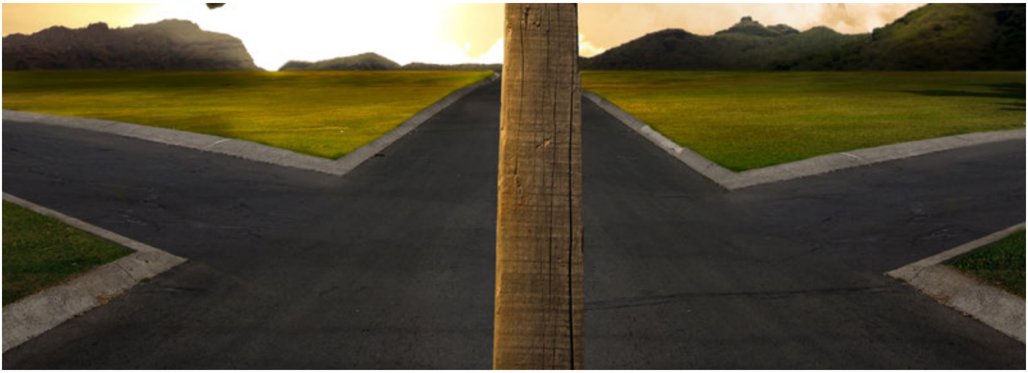
Some 30 new securities were added to the eligible list for borrowing and lending, while 18 were removed. With the updates, there 239 eligible securities for borrowing and lending in Malaysia. The total number of securities that can be used as collateral stands at 238.

Indonesia, China and India

The KPEI (Indonesian Clearing and Guarantee Corporation) is working on the country's securities borrowing and lending system, and more details on the final model are expected to be released by the middle of 2015. The KPEI appears to favour a bilateral model similar to that of South Korea.

On what the securities borrowing and lending system could look like in the future, the KPEI says its main aim is to support settlement management and facilitate margin trading and securities financing.

To this end, it has worked to enable custodian banks to participate, and is pushing for more



clearing members, investors and financial institutions to join and benefit from the facility.

In China, there has been some loosening of short selling policy, but more development is required before the market becomes viable. Some reports have suggested that hedge funds are pursuing aggressive short selling strategies, particularly in copper and other commodities.

India also has work to do if it is going to attract more foreign investors and their lending agents.

Authorised intermediaries can now enter into securities borrowing and lending agreements with clearing members in India, following market calls for the change.

The Securities and Exchange Board (SEBI) of India confirmed in 2014 that the country's framework had been modified to allow authorised intermediaries such as agent lenders and prime brokers to directly enter into agreements with clearing members for the purpose of facilitating borrowing and lending.

Under the new rules, an agreement must specify rights, responsibilities and obligations, and include basic conditions for lending and borrowing. The agreement must also detail the "exact role" of authorised intermediaries and clearing members in relation to their clients.

Authorised intermediaries have to ensure that there will be no direct agreement between lender and borrower, despite market participants expressing a desire to move away from the country's stock exchange settlement system to a bilateral format.

The move followed SEBI's decision to create a unified and simplified regulatory framework for foreign portfolio investments. A new investor class, foreign portfolio investor (FPI), has been created, merging the three existing investor classes.

"It was envisaged that dispensing with the mandatorily requirement of direct registration with SEBI and adopting risk-based know-your-customer approach in [an] FPI regime would smoothen the entry process and onboarding experience of FPIs which desire to invest in the Indian securities market," according to SEBI.

Citi Securities Services India was among the first banks to register an FPI following implementation of the regime.

"The inherent attractiveness of the Indian markets, has kept India as a focal point of our securities business and we are pleased to roll out this new framework for our global clients," commented a Citi executive at the time.

"We have been continuously involved with the development of the securities markets here from being the first to enable securities lending and borrowing for our clients to facilitating the largest QFI investment to being the first custodian to offer e-voting facility for company board meetings for our clients."

Indeed, Citi added India to its OpenLend platform in 2012, to give both domestic and offshore clients continuous market access to the exchange-traded central counterparty model prevalent in the country. **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.

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