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Nice and Nordic

It is against the backdrop of the dramatic drop in oil prices and Brexit that fears have been raised about the future of Nordic economies, although securities lending appears to be healthier than ever. DataLend saw in June 2016 approximately $32.17 billion on loan in the traditional agent lender to broker-dealer segment, up from July 2015's $28.8 billion.

Drilling down deeper, we see that this is because securities lending is a well-understood product in the Nordics, with some local beneficial owners even managing the business in tandem with their corporate governance and socially responsible investment programmes, suggesting that not only do they want to lend, conservatively of course, but they want to do it properly. That's a level of sophistication that warrants a price tag of 1.7 percent of the entire global on-loan balance of more than $1.8 trillion.

Included within these pages is all of the information and advice you could want on securities lending in the Nordics. Thanks goes 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 do drop us a line.

Mark Dugdale
Group Editor

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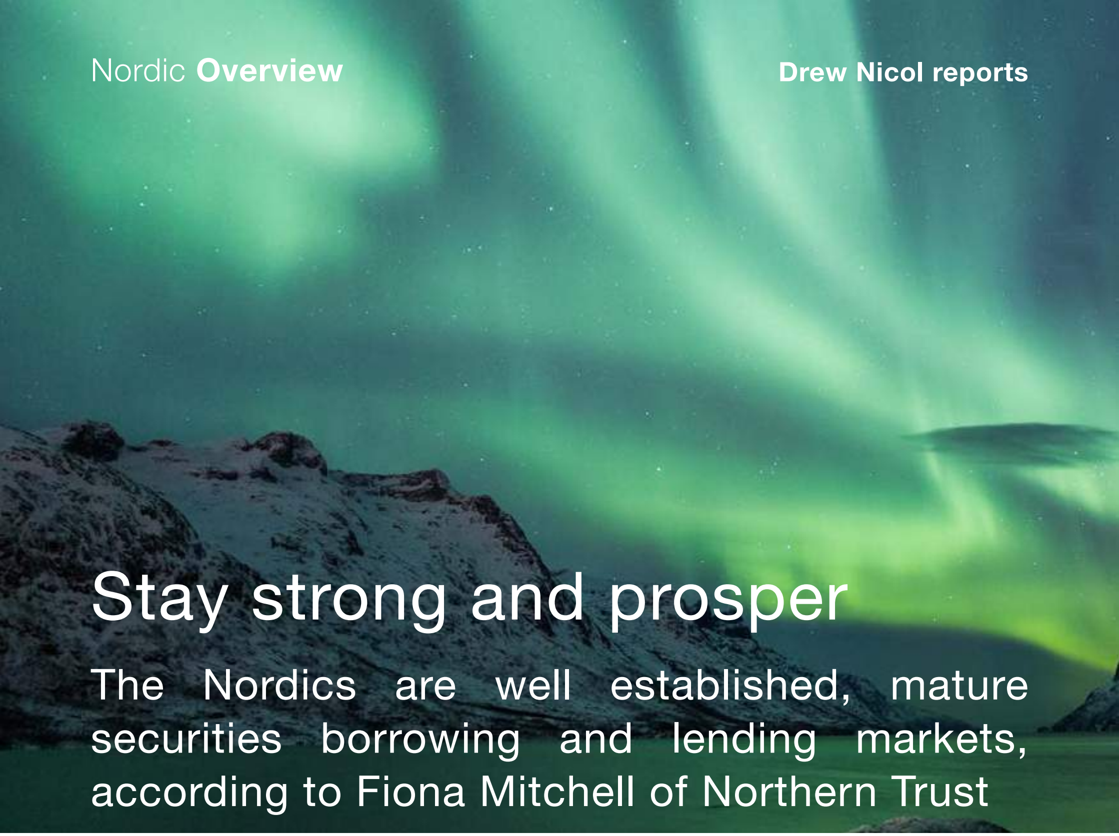


Stay strong and prosper

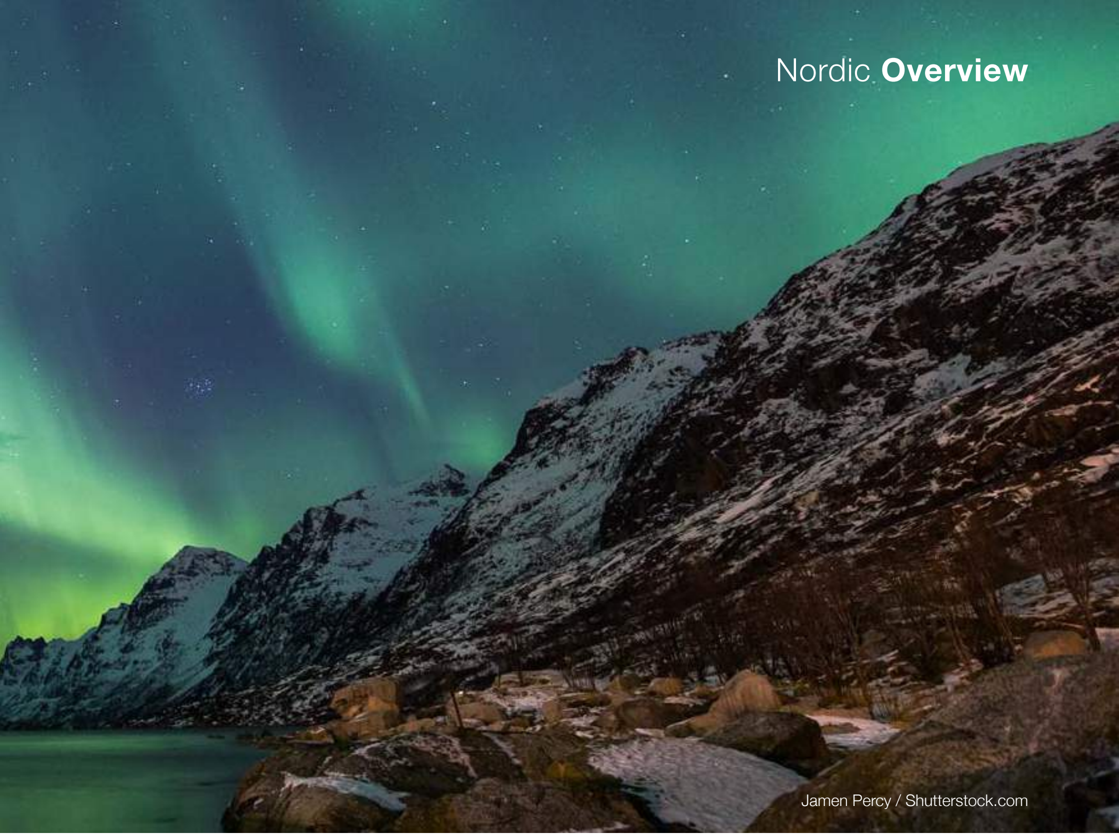
The Nordics are well established, mature securities borrowing and lending markets, according to Fiona Mitchell of Northern Trust

What are the characteristics that, for you, define the Nordic markets?

Securities lending is a well-understood product among our Nordic clients. From a beneficial owner's perspective, our larger clients there tend to be very focused on environmental and social governance and socially responsible investing, particularly in their own domestic markets. We typically find, however, that they manage the corporate governance and socially responsible investing in tandem with their securities lending programme. Effectively, there is a balance to ensure revenues are maintained alongside corporate governance policies. For example, clients may choose to hold back a certain percentage or value of securities, typically in their home market which they would vote on—but not the entire position.

In terms of revenue, on the equity lending side, the Nordics has always been a region that has delivered consistently strong returns and 2016 has been no different in that respect. From a macro standpoint, a global reduction in commodity prices has been the key driver of demand. The decline in oil prices has created directional interest towards companies that generate significant revenue across the sector. This has been a long-term theme and helped sustain strong returns. Outside of the commodity sector, the year has also seen strong directional demand for selective securities within the technology and retail sectors. Companies within the biometric technology sector have been in demand due to concerns that sales, boosted by the inclusion of their technology in mobile phones, may be short lived.

On the fixed income side, the government debt of Nordic countries is among the most highly rated globally and therefore these assets are in demand for pledging collateral and for refinancing purposes.



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The Nordics are well established, mature securities lending markets. As a result, automation is critical. The ability to provide transparent and efficient pre and post-trade functionality is an essential part of servicing borrower demand. In this respect, Northern Trust's EquiLend and BondLend capabilities have continued to allow us to be at the forefront of these markets, and we are the largest global user of EquiLend's and BondLend's automated trade platform. Northern Trust's capital investment in this space has provided a robust platform on which to support our clients and business around the world.

Northern Trust is also looking to use Next Generation Trading (NGT) developed by EquiLend. NGT provides greater transparency around pricing and increased accuracy than some of the traditional electronic links used in the past, thus allowing a higher level of straight-through processing.

How has the use of different collateral types changed over the past year and what is driving those changes?

With reference to Nordic lenders, we are seeing increased collateral flexibility—with movement down the credit and duration curve—and new collateral asset classes are being considered. While cash collateral is prevalent, acceptance depends on specific client risk appetites and approaches.

Collateral flexibility remains a key focus for Northern Trust.

We continue to look to evolve our lending programme and work to better align our client guidelines with the broadening requirement of the demand side of the industry.

Aligning these two components will ensure we are well positioned to maximise returns for our clients.

It was said at several industry events in 2016 that beneficial owners could benefit from being more flexible in their collateral requirements. Do you agree and how are they listening to such advice?

Northern Trust believes every client has its own, individual risk and return profile. Borrower parameters, lending limits and collateral requirements are part of that overall profile.

We work in close partnership with our beneficial owner clients to ensure their securities lending programmes are tailored to their unique requirements, including collateral, as securities lending is not a one-size-fits-all product. As a securities lending agent, we provide options and explain the risks and returns which then enables our clients to make decisions that best meet their bespoke objectives.

What are your expectations for the next 12 months in the Nordics?

The regulatory environment continues to be a key influencing factor across the securities lending industry, and the Nordics are not immune to that. Basel III has increased the cost of supporting this business, with rising balance sheet costs and higher capital adequacy requirements affecting both borrowers and lenders. We expect regulation to continue to influence demand going forward.

Collateral transformational trades that allow borrowers to access fixed income securities versus lower grade collateral—typically equities—on a term basis will likely remain in constant demand. However, the same regulation is making these types of trades more expensive for agent lenders support due to higher regulatory capital requirements.

Central counterparties (CCPs) offer one potential solution here, as when transacting through a CCP, the regulatory capital requirements for both borrower and agent lender are reduced. Over the last two years, momentum has increased in support of the use of CCPs in the securities finance marketplace.

Focus on reducing the capital footprint of the business is likely to continue. We are developing our capabilities to support the securities lending CCP model and believe this will play a significant role in the industry going forward.

Fundamentally, as we look towards the rest of 2016 and into 2017, our ultimate objective is the continued growth of our clients' revenues while maintaining effective risk management and delivering an outstanding service. We believe that providers who can demonstrate a track record of operating with integrity, transparency and expertise in this field will continue to prosper in the Nordics.

"The Nordics are not immune to the current regulatory environment"

Fiona Mitchell
Head of Nordic relationship management, capital markets
Northern Trust

The Nordics: Logic, not sentiment

The Nordic region continues to be influenced by global trends in securities finance and lending, but as beneficial owners chart their own course, says Stephen Kiely of BNY Mellon Markets Group

What is the current state of securities lending and finance in the Nordics?

Asset owners in the Nordics, maybe even more so than their global counterparts due to a steady and studied approach, are looking increasingly to securities lending as an alpha driver and a profit centre—as opposed to a view that it is merely going to cover costs with a small amount of additional revenue.

That said, the Nordics are not isolated from the rest of the world. We are in a historically low interest rate environment and have been for an extended period of time. Couple that with greater macro-level uncertainty, and it means the search for yield goes on. Increasingly, equity managers are looking for that increase yield through a securities lending transaction. Fixed income managers have always done this. For passive managers tracking the same index with the same methodology, lending might just be the difference in beating the benchmark.

How does the securities finance activity in the Nordics differ from the rest of Europe?

The Nordics is often called 'a region within a region', and it has its own identity within that European sphere. In a securities lending and financing context, this often means that Nordic beneficial owners, while open minded, are more conservative.

Others may say: "We don't understand that fully so we aren't doing it." In the Nordics, they will say: "We need to understand it fully before we do it." Nordic beneficial owners do need that understanding and complete transparency before acting, and that is to their great credit.

How does this correlate with global trends around the rise of equities and ETFs as collateral?

These are things that are at the vanguard of the market and the Nordics are never going to be first movers—they really do want to see the path proven before they take their first step. That said, in the past 12 months, we have seen a rise of equities used as finance in transactions in the Nordic region.

Traditionally, the market has been split along the fixed income and equity lines where, from a borrower perspective, the demand to borrow an equity is specific to that borrowed equity. There is an intrinsic value to the specific thing they want to borrow. In the fixed income market, which evolved from

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the repo market to an extent, it's been about financing the collateral and using a basket of borrowed fixed income assets to finance the collateral they give you.

What we are seeing now in the equity space is the demand to borrow baskets of equities and give other equities as collateral.

This is coupled with the continued rise of exchange-traded funds (ETFs) as collateral. There is movement in the use of ETFs as collateral, and liquidity in ETFs in the securities lending market has increased.

Of course, ETFs are a smaller part of the market, and it depends what utilisation is—simply saying the fee is high doesn't mean anything if you are hardly getting anything out on loan.

While you can't take that statistic in isolation, what it does show is that the market is moving in the right direction and we have seen both an increase in ETFs lending and ETFs collateral.

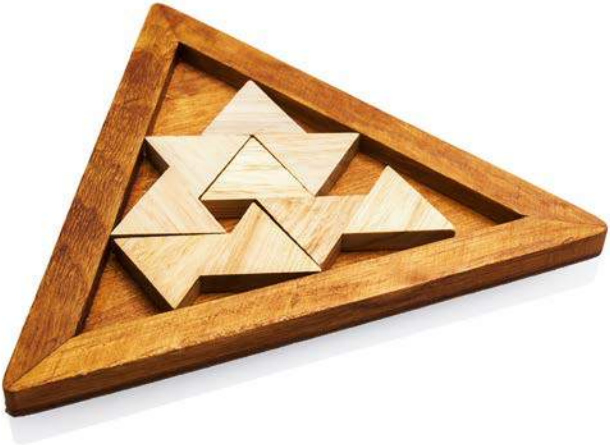
This has been something that we have witnessed in the Nordic markets as well, and not just from the wider set of players. Specifically in the region, Denmark has been very receptive and open.

According to Finadium, non-cash collateral has been increasing as a proportion of collateral in the global marketplace since 2006. In 2015, it gradually tipped the scales, in that 52 percent of all collateral in all global securities lending was non-cash and only 48 percent was cash. That is the first time non-cash collateral had surpassed cash. Of that 52 percent, 60 percent is equity. If you go back three years, you were at the vanguard if you were taking equity collateral.

Now, if you are taking equity collateral you are in the majority. Our Nordic clients have been a big mover in that.

Once they understood it—especially where it correlates as equity loans versus equity collateral—they liked the correlation and they moved into that with ease.

The same is true pertaining to lending in developing markets, such as the Asia Pacific markets. Nordic beneficial owners haven't been the first clients of ours to lend in Hong Kong, Taiwan or South Korea, but once there are proven operational flows and revenue streams, they are committed participants. We find that, quite importantly, the Nordics operate on logic not sentiment.



Any other trends particular to the Nordics?

There is some momentum around increasing term lending and to lend for term with full right of substitution among our Nordic clients. A lot of the term trading is being driven at the moment by the regulatory pressures on borrowers. Therefore, it is not the specific assets they want to borrow, it is a basket of a type of asset they want to borrow.

Because it is not a specific asset, borrowers will ask for a three-month trade with full right of substitution, which means the lender is able to sell one of the assets in that basket during the three-month period and just replace the asset with a similar one from its portfolio.

It is very much like collateral optimisation with a focus on the loan side. Full right of substitution is great for a lender because it gives them that absolutely sweet spot of where they get all the advantages of lending for term without a significant loss of liquidity.

For an asset owner, in which securities lending can be a significant but still only a part of an overall investment strategy, it can eliminate the idea that they are tied in or restricted because something is out on loan. These are all part of larger discussions with our clients.

For our Nordic clients with large amounts of fixed income and equity in their portfolios, we are looking at equity finance trades where we are terming up baskets of equities, not just the traditional fixed income.

From a borrower perspective, where is the activity in the Nordics?

Oil and commodities have performed well in the lending market and that has played particularly well for Norway.

Nordic oil companies are still trading special given the volatility around oil prices. In 2016, we've seen increased revenue from Nordic stocks. There has been increased demand for them and they have performed well.

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What impact is regulation having in the region?

Basel III, and its impending rules such as the liquidity coverage ratio (LCR), is affecting the demand side for the borrowers, which is lending itself into the term argument discussed previously. In the Nordics, the regulation that is front and centre is the Securities Financing Transaction Regulation (SFTR), in which the European Securities and Markets Authority (ESMA) is aiming to set out a reporting framework around the reuse of collateral and the recording of every securities financing transaction by sometime in December 2017.

While details are still being ironed out, we are working with our clients to take as much of the operational and administrative burden as we can. Of course, our Nordic clients watch the regulatory environment with interest, especially those regulations that directly affect beneficial owners, such as SFTR.

They are very keen to work with custodians and agent lenders to navigate the landscape and make sure all their obligations are fulfilled.

Oil and commodities have performed well in the lending market

Stephen Kiely
Head of securities finance sales and relationship management, EMEA
BNY Mellon Markets Group

The Nordic region thaws out

Although the Nordics continue to face economic challenges, securities lending remains healthy, says Chris Benedict of DataLend

The 2015 global selloff in oil prices roiled the world markets, and the Nordic region was no exception. Although oil prices appear to have stabilised, each country in the Nordic region still faces its own economic challenges and uncertainties. Post-Brexit recession fears are worrying Finland and Denmark. Finland's unemployment rate has risen to 10.8 percent among weak domestic demand and falling business investment. Iceland has seen its exports drop by double digits for three quarters in a row.

Depressed oil prices continue to beleaguer Norway. Sweden has seen a surge in housing demand and big government stimulus and is presently viewed as one of Europe's fastest-growing economies. But some are worried it may be overheating.

It is against this economic backdrop that we turn our attention to the Nordic securities lending market. Traditional agent lender to broker-dealer securities lending activity in the Nordic region shows approximately $32.17 billion on loan as of this writing, up from $28.8 billion in July 2015. This represents an 11 percent increase in on-loan balance year over year. The Nordic region presently makes up just under 7 percent of Europe's total on-loan balance of roughly $451 billion and 1.7 percent of the entire global on-loan balance of more than $1.8 trillion.

Looking at this on-loan balance by asset class, we see approximately $25.5 billion—or some 79 percent of the region's total—is composed of equity assets, while the balance of $6.67 billion is fixed income. That contrasts sharply with the rest of Europe, where equities constitute only 31 percent ($129 billion), and fixed income makes up the remaining 69 percent ($289 billion) of the $418 billion in total assets on loan (ex-Nordics). However, a significant portion of the Nordics fixed income market is held domestically and may not be reflected in the current balances.

We've seen significant growth in the broker-to-broker market in the Nordic region over the past 12 months. In the summer of 2015, broker-to-broker on-loan balances were hovering around $5 billion. That number has grown to $9.19 billion, representing a substantial 83 percent increase.

Looking at the lendable side of the Nordic securities lending market, we currently see a balance of $282.6 billion, up 6 percent from the $266 billion observed in late July 2015. This gives the region an overall utilisation of roughly 12 percent at present.

The Nordic region's lendable balance constitutes 7.7 percent of Europe's total lendable value of $3.66 trillion and just under 2 percent of the entire global lendable balance of $14.4 trillion.

Similar to patterns observed last year, the Nordic region's securities lending market trades warmer than the rest of Europe. These generally higher fees are driven predominantly by the equity market. The volume-weighted average fee to borrow Nordic assets averaged just above 160 basis points (bps) over the past 12 months, with average fees trending around 106 bps presently. This is much higher than fees to borrow European (ex-Nordic) assets, which averaged around 89 bps for the same timeframe and are currently trading at around 32 bps. Looking at broker-to-broker fees, we currently see a much higher 137 bps in the Nordic region compared to 60 bps for broker-to-broker fees in Europe (ex-Nordics).

Fees to borrow Nordic sovereign debt are mostly in line with fees for other European countries at just above 11 bps at present. We have noticed a downward trend in demand to borrow Nordic sovereign, with utilisation in Nordic sovereigns dropping from 27 percent in July 2015 to 16 percent today. On-loan values for Nordic sovereigns have also decreased from $6 billion to just $3.8 billion today, a 37 percent decrease.

This does not dovetail with the rest of Europe, where the on-loan balance for sovereigns has increased from $222 billion to $240 billion, and utilisation has remained fairly steady at approximately 33 percent.

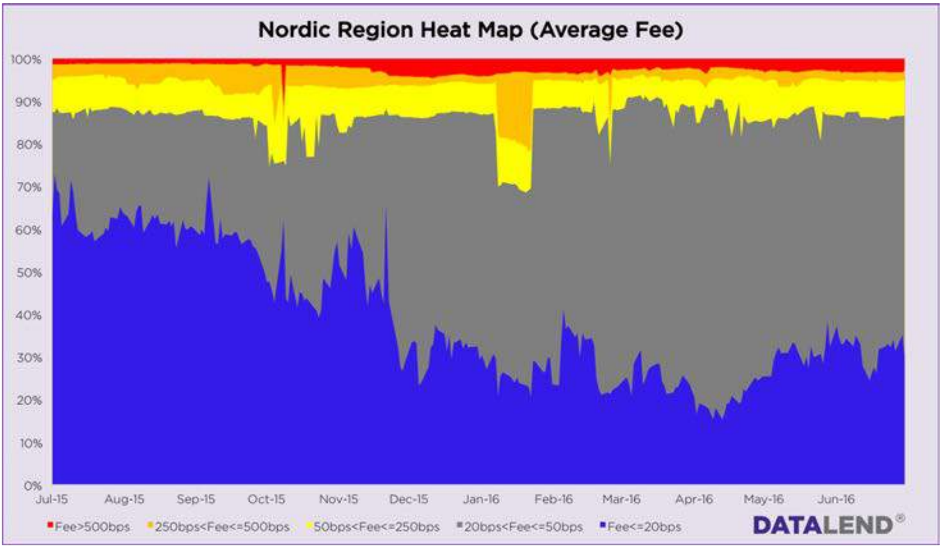
Interestingly, Nordic corporate bonds trade much cooler than the rest of Europe at an average of around 11 bps for the past year compared to an average of 46 bps for Europe (ex-Nordics).When we break down the data by country, we start to see some differences in trading patterns across the Nordic constituents.

Denmark

The size of the securities lending market in Denmark remains mostly unchanged year over year, currently standing at just below $5 billion with an average on-loan value of $5.25 billion over the last 12 months. Like many other countries in Europe, we see the on-loan balance and utilisation for Denmark rise significantly to $12.8 billion and 16.6 percent respectively in the spring. Fees to borrow Denmark assets are fairly low for the region but have been rising steadily in the last year from 30 bps in the summer of 2015 to 56 bps today. Denmark's lendable balance has been growing steadily over the past 12 months, from $68 billion at the end of July 2015 to $79 billion today.

Overall utilisation, however, has remained fairly consistent at between 6 and 7 percent.

When looking at some of the top-earning names in Denmark for the past 12 months,



we recognised a few names we covered here last year, including construction and mining machinery company FLS Industries, which grossed $15.8 million in borrow fees for lenders. Other top-grossing names in Denmark in the last year were healthcare companies, including: pharmaceutical firm Novo Nordisk, which earned close to $8.6 million in revenue; healthcare equipment firm Ambu, which came in with $2.2 million in securities lending revenue; while another healthcare equipment firm, Coloplast, yielded $1.7 million in revenue. Finally, industrial firm AP Moller Maersk closed out the top five for Denmark with $1.6 million in revenue.

Finland

Finland's securities lending market is larger than that of Denmark, currently carrying an on-loan balance of $8.34 billion, averaging around $9.5 billion for the past 12 months. This is down a bit from $9 billion in late July of last year, a small 7 percent drop. Finland's lendable balance conversely has seen solid growth during the same period, rising from $42.6 billion to $47.8 billion.

As a result, we've seen utilisation for Finland drop during the same timeframe, from 21.5 percent in late July 2015 to 17.5 percent today.

Fees to borrow Finnish assets have remained consistent over the past 12 months, generally trading at between 30 and 40 bps.

Similar to other countries in the region, Finland also sees its on-loan balance and utilisation rise in the spring to $13.5 billion and 29 percent utilisation, respectively.

Some of the top revenue earners in the Finnish securities lending market over the past 12 months include: telecommunications firm Nokia, which earned $17.3 million; industrial company KONE, which yielded just over $16 million; and insurance firm Sampo, which grossed $15 million.

Paper products manufacturer Upm Kymmene made $10.3 million, and capital goods firm Outotec, the top earner for the Nordic securities lending market in 2013 and 2014, has cooled a bit since then and has earned $6.6 million.

Iceland

Iceland is by far the smallest securities lending market within the Nordic region with a current on-loan balance of just over $6 million, down from a little over $10 million this time in 2015, with a 12-month average of about $10.9 million. Fees to borrow Icelandic assets averaged around 35 bps over the past 12 months but have crept up to just below 51 bps in June 2016. Iceland's lendable balance is also quite small at $380 million, giving the country an overall utilisation of just under 3 percent.

Norway

The size of Norway's securities lending market is similar to that of Denmark with a current on-loan balance of $6.21 billion, up 22 percent from the $5 billion we observed this time last year, and a 12 month average of just over $7 billion. Norway's lendable balance also saw some growth over the 12-month period, from $33.5 billion in late July 2015 to just over $36 billion at the time of writing.

The utilisation of Norwegian securities averaged close to 21 percent over the past 12 months. Similar to the trading patterns observed in other Nordic countries, the on-loan balance and utilisation of Norwegian securities increased in the spring and reached a maximum of $13.7 billion and a utilisation of 35 percent in early May 2016.

Not surprisingly, many of the top-earning names in the Norwegian securities lending market over the past 12 months are names in the energy business.

These include Statoil (part of our list of top earners in 2015), which earned gross revenue of just over $28 million, and offshore driller Seadrill, which brought in almost $20 million. Telecommunications stock Telenor grossed $17.5 million, financial services firm DNB saw revenues of $13.7 million, and fertiliser and chemicals company Yara International earned just under $7.5 million in securities lending revenues.

Sweden

The Swedish securities lending market is the largest of the Nordic region with an on-loan balance of approximately $12.1 billion at the time of writing and a 12-month average of $13.6 billion. This is up almost 25 percent from the $9.7 billion observed at this time in 2015. Utilisation has followed suit, rising from 8.1 percent in late July of 2015 to almost 11 percent today.

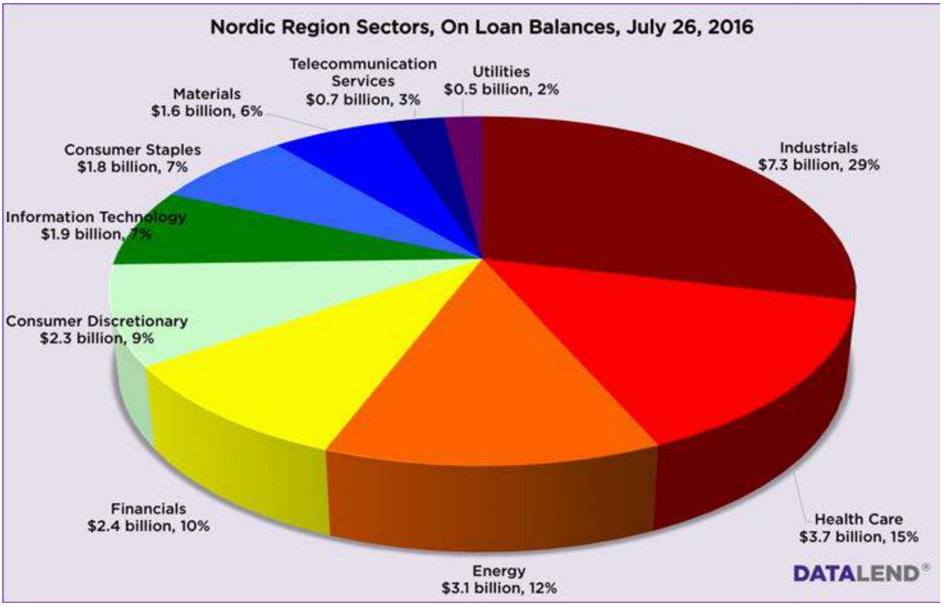
Similar to other countries in the region, the on-loan balance and utilisation for Sweden balloon to a peak of $27.8 billion and 22 percent respectively in the spring. Sweden's lendable balance hasn't changed much in the past 12 months, hovering around the $120 billion mark.

One significant trend DataLend has noticed in the Swedish securities lending market over the past 12 months is the rising fees, which have grown significantly from just under 39 bps in July 2015 to almost 171 bps today, representing a 338 percent increase.

When looking at the underlying assets to determine the cause, we noticed that the information technology sector is driving this fee increase. Fees to borrow Swedish IT equities were fairly warm in July 2015 at around 87 bps. By the end of 2016, that number had jumped to 812 bps.

These fees then dropped down to just below 300 bps by mid-April of this year, but came roaring back and are now reaching new highs at 1226 bps, representing a 1,300 percent increase year over year. When looking at the securities driving this growth in fees within the IT sector, we see that red-hot biometric company Fingerprint Cards is directly responsible for the increase.

Not only is this company currently the hottest stock in the Nordic region, it is also the hottest stock in all of Europe and is certainly the most profitable name for Sweden and the entire Nordic region in the past 12 months, with revenues reaching almost $85 million.



Nordea Bank is a distant second, grossing $31.5 million.

Telecoms firm Ericsson brought in just over $17 million in revenues, while retailer Hennes & Mauritz made $15.5 million.

Fees to borrow financial services firm Swedbank grossed $13 million over the past 12 months.

Although the Nordics will continue to face economic challenges for the rest of 2016 and beyond, the securities lending industry in the region continues to show healthy on-loan balances.

This will compel fees and plenty of revenue opportunities for agent lenders and beneficial owners alike.

"The securities lending industry in the region continues to be healthy"

Chris Benedict
Director
DataLend

Nordic **Numbers**

The stat pack

DataLend highlights the key securities finance statistics of Denmark, Finland, Iceland, Norway and Sweden

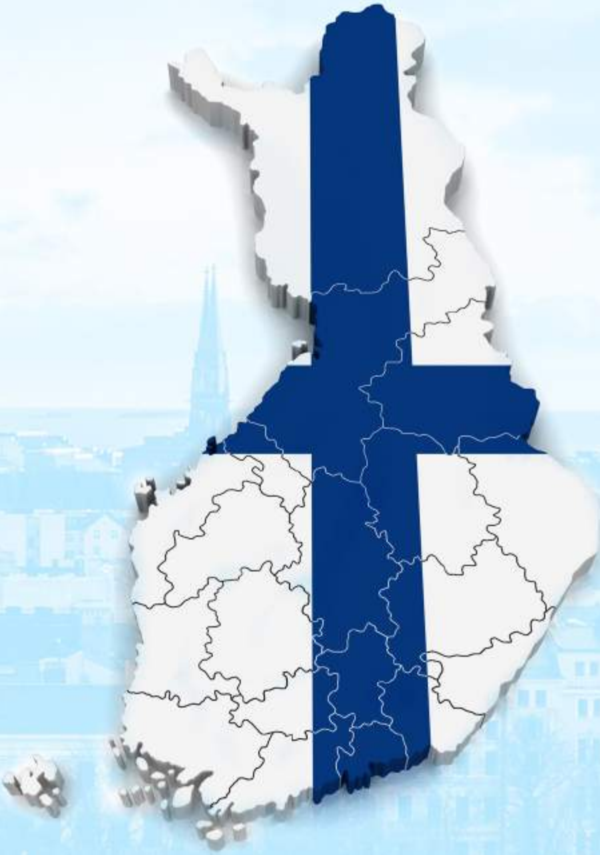
Denmark

On-Loan Value: $5.25 billion

Inventory Value: $73.34 billion

Average Utilisation: 7.14 percent

VWAF: 92.5 bps



Finland

On-Loan Value: $9.55 billion

Inventory Value: $45.1 billion

Average Utilisation: 21.18 percent

VWAF: 161.31 bps

Iceland

On-Loan Value: $10.93 million

Inventory Value: $359.44 million

Average Utilisation: 2.94 percent

VWAF: 36.34 bps

Norway

On-Loan Value: $7 billion

Inventory Value: $33.85 billion

Average Utilisation: 20.52 percent

VWAF: 213.16 bps

Sweden

On-Loan Value: $13.67 billion

Inventory Value: $118.62 billion

Average Utilisation: 11.45 percent

VWAF: 225.15 bps

Fancy a Danish?

Danske Bank's Christopher Kandimaa explains why Denmark stands out from the Nordic crowd when it comes to its securities lending industry

There are some clear differences between the Nordic markets in regard market composition and how companies are traditionally financed.

Denmark by heritage is a fixed income market, dominated by one of largest covered mortgage bond markets in Europe, that dates back to the 1790s. The Danish equity market has a high bias towards pharma industries (Novonordisk accounts for about 35 percent of the KFX index) financial, shipping and engineering sectors.

From a stock loan perspective, liquidity is concentrated to about 10 companies, where there is also a fair amount of overseas investor

Frank Fischbach / Shutterstock.com

holdings available for lending through the larger international custodians.

In general, the small and mid cap companies are suffering from low liquidity both in the cash market and in the stock loan market.

Compared to Sweden, Norway and Finland, there are relatively few local asset managers in Denmark that distribute assets via lending programmes, where stock lending is a more accepted product for portfolio enhancement.

Larger pension funds and institutional owners are likely to be active due to being part of these more established lending schemes with their global custodians and agent lenders. Institutional Scandinavian banks and brokers are active but supply is limited as Denmark is more oriented toward bonds. Local brokers have traditionally utilised buy/sellbacks without governance by contractual agreement and mark-to-market for short covering purposes between themselves.

House rules

The Danish Financial Supervisory Authority (FSA) and tax authorities only began to recognise the concept of transfer of title in connection with securities lending and collateral transfer a few years ago. Currently, there are few local market participants that trade bonds under the Global Master Securities Lending Agreement (GMSLA). Instead, they do business under the Global

Master Repurchase Agreement on delivery-versus-payment basis.

As the FSA and tax authorities nowadays recognise the concept of transfer of title and local participants have, to a large extent, scrapped the old local 'rammeaftale' contract that only governed Denmark-listed equities, borrowing and lending of locally listed equities under the GMSLA should be a relatively straightforward business.

There are probably some individual concerns stemming from the legal and tax status of the lending institution, much like everywhere else.

For instance, some years back, taxation on manufactured dividends for insurance companies was more aggressive than taxation on dividend income.

This was due to the classification of income implying that lenders needed to be compensated with more than 100 percent to be made full on the contractual agreement, but this has now been relaxed.

The Danish way

The business is not as widespread and widely known as it is in some of Denmark's neighbouring countries.

This could also be affected by the fact that no mutual fund business in the traditional sense exists, as Danes locally have been invested in Danish style exchange-traded funds known as 'investeringsforeninger'.

A consequence of the lack of liquidity combined with limited supply from local lenders and regulatory uncertainties is that a large part of the Danish stock loan market is controlled by the larger international custodians, prime brokers and Nordic banks rather than local Danish banks and brokers.

Demand for stock loans in Denmark is almost exclusively driven by international investors and tend to be very name specific.

The local ETF market is also underdeveloped compared to the rest of Scandinavia, with no larger index providers offering KFX exposure on the local exchange.

Due to the current situation with negative interest rates and an abundance of cash, the Danish krona has traditionally not been the collateral of choice for the collateral receiver.

However, due to the very developed and well-functioning fixed income market, especially for covered mortgage bonds, this has been a preferred and convenient types of collateral locally among market participants.

Demand for stock loans in Denmark is almost exclusively driven by international investors and tend to be very name specific.

Christopher Kandimaa
Equity finance
Danske Bank

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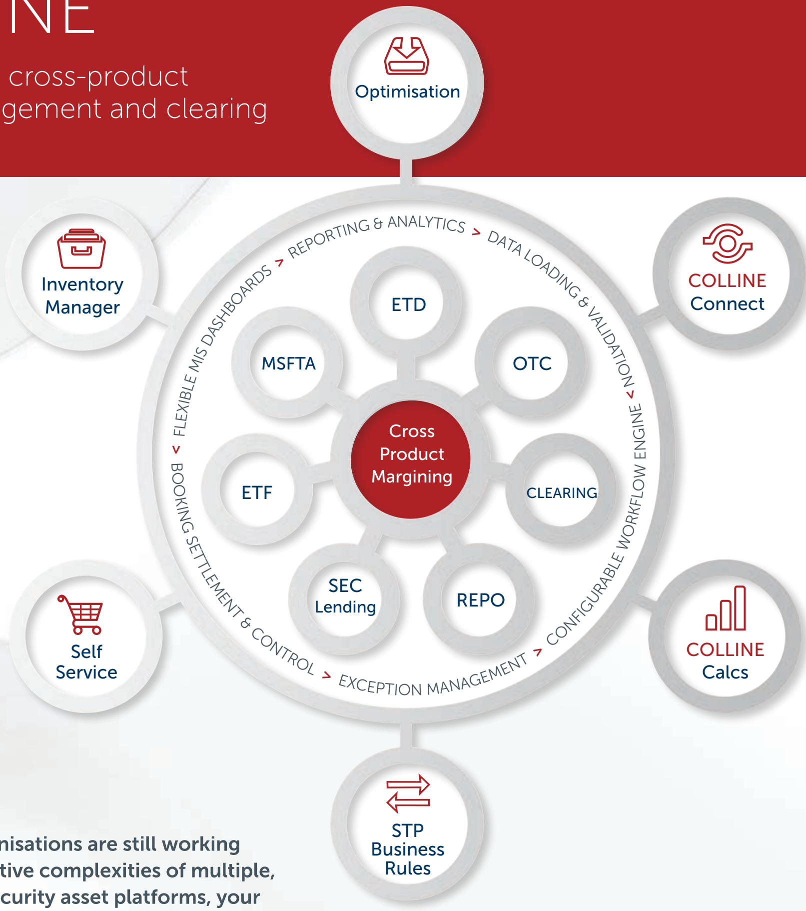

While many other organisations are still working through the administrative complexities of multiple, segregated cash and security asset platforms, your COLLINE cross-product solution will provide a single platform that consolidates collateral across all asset classes, giving you maximum control over where, when and how the assets in your business lines are utilised.

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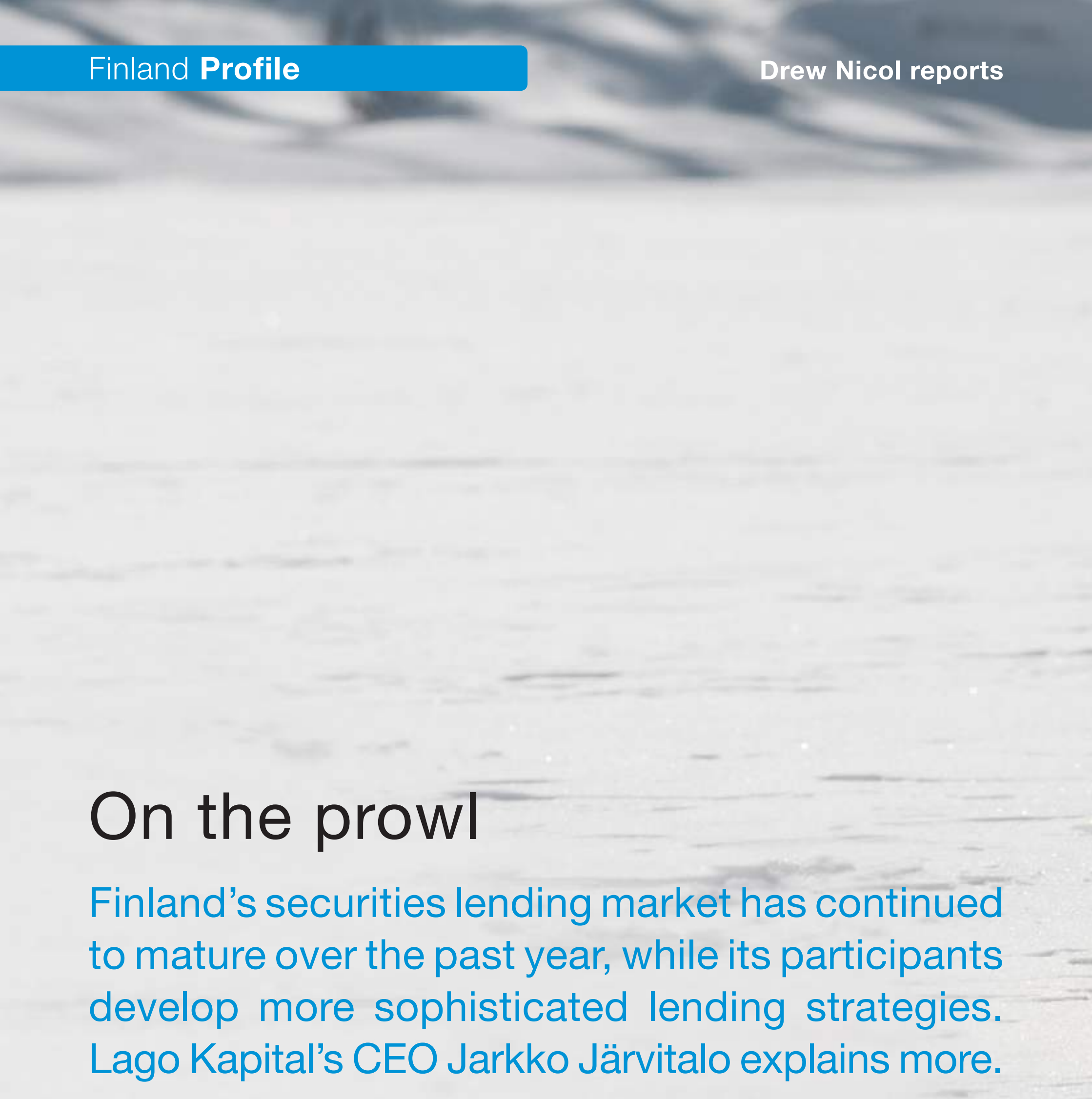

Drew Nicol reports

On the prowl

Finland's securities lending market has continued to mature over the past year, while its participants develop more sophisticated lending strategies. Lago Kapital's CEO Jarkko Järvitalo explains more.

How has market liquidity and average utilisation evolved over the past year in Finland? How does this compare to other Nordic states?

Liquidity has improved a lot as more and more lenders join securities lending programmes.

We have also been very active in bringing second-tier fund companies and institutional investment companies into the market, which has also contributed to larger availabilities.

Having said that, you can never have enough availability if a stock becomes 'special'.

Availability has improved in all Nordic countries. Norway is a perfect example of where almost every single stock used to be special 10 years ago, but now I would consider it to be a very liquid market.

The fact that private investors still cannot lend out their securities in Finland remains an issue.


Holly Kuchera / Shutterstock.com

We have opened a couple of discussions around that issue but given the Markets in Financial Instruments Directive II, I am not sure that market participants want to open that door even if it was made possible.

We also see that lenders are opening their bond portfolios for lending but unfortunately we have not seen that much demand for bonds issued by Finnish corporates. There would be a lot of demand for Finnish government bonds but our clients do not hold those.

What is the average fee range in Finland?

General collateral (GC) stocks are still around 20 basis points (bps) so we do not see that much change there.

Financing trades are also becoming more and more popular so a lot of GC loans are now booked as financing trades.

Illiquid names tend to get hot a bit too easily so we still have some work to do there.

One of the biggest challenges is to convince investors to lend out their GC holdings and not only the special ones.

Is Finland still following Sweden's lead in financial sectors such as securities lending?

We are still behind when it comes to volumes but Finnish investors are more active in more exotic markets such as Russia, Turkey and Poland.

Asia is also becoming more and more active. The use of alternative ways to lend securities, such as single stock futures, swaps and financing trades, are also becoming increasingly popular. Swedish private investors are also able to lend securities from their investment portfolio, which unfortunately is not yet possible in Finland.

Finland's close ties to the Russian economy had negatively affected its securities lending market in the past. Has this situation now improved or deteriorated further?

It affected the lending of Russian securities and we can still see a drop in volumes due to sanctions.

On the other hand, all Russian local securities held by Finnish fund companies are regarded as very hot and somewhat more 'secure'.

How has Lago's place in the Finnish market developed?

We are still the only broker-dealer based in Finland. Swedish banks are active in the Finnish market but I would say we have a totally different client base. There might be some overlap every now and then but this has never caused any problems.

We are mostly approaching smaller fund companies and investment firms that would probably not be interesting to larger banks.

We have also entered non-traditional markets where the Swedish banks are not that active. One example being the Hong Kong markets where our Finnish version of the global master securities lending agreement has been approved by the local tax authorities.

Is the trend of local lenders making their international securities available still developing in Finland?

We have several lenders that only lend out their international holdings as their international holdings are more stable and they very seldom participate in annual general meetings.

The fact that most of our lenders prefer the cash option in a scrip dividend makes their availability even more attractive.

We have several lenders that only lend out their international holdings

Jarkko Järvitalo
CEO
Lago Kapital

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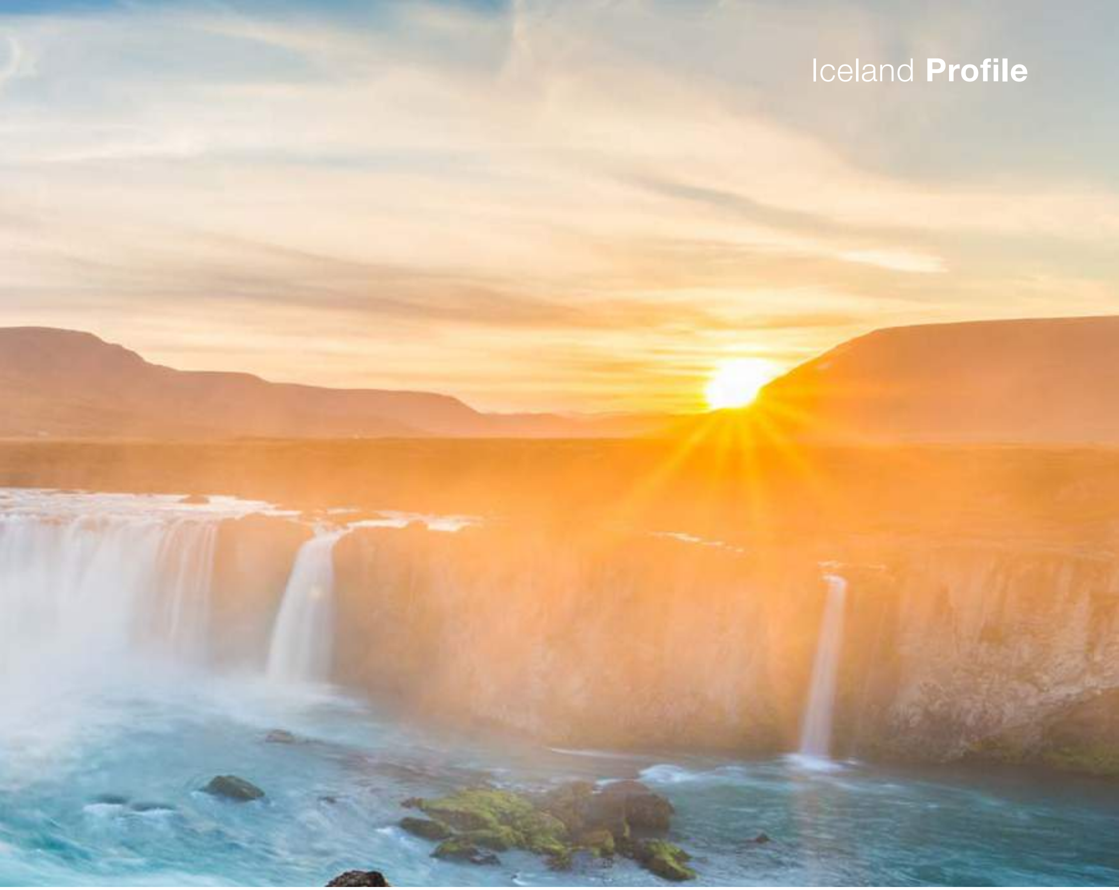
Reaching its full potential

Iceland's securities borrowing and lending business is in need of a boost, writes Mark Dugdale

Still the smallest securities lending market within the Nordics by some margin, Iceland has had a torrid few years in terms of business done. According to DataLend's coverage of Iceland over the past three years, based on 12-month averages, the country has gone from an on-loan value of $28.1 million, to $21 million in 2015, to a paltry $10.9 million in 2016. These figures do not tell the whole story, though. DataLend reported fees to borrow Icelandic assets creeping up to just below 51 basis points (bps) in June 2016, overtaking a 35 bps 12-month average.

Fees to borrow Icelandic assets stayed in this range over 2015 and 2014, while it's worth bearing in mind Iceland's relatively small lendable balance. At just $380 million in 2016, the country's overall utilisation came in at just under 3 percent in 2016, down significantly from 2014's average utilisation of 15.3 percent and 2015's 7.5 percent. Without significant supply, demand will always struggle to materialise. Securities borrowing and lending participants have asked Iceland's regulators to expand the powers of pension funds and collective investment funds in a bid to raise supply to a level comparable with that in other Nordic countries. But the only significant movement in reform in Iceland appears to be at the Icelandic Financial Supervisory Authority, whose progress with implementing the EU Short Selling Regulation has been slow going. It expects to take up to two years to to implement this and other reforms.

"Extensive preparation is currently being carried out for that purpose," the authority wrote in its 2016 report. "The primary updates are being mapped and their impact is being analysed, as the changes concerned are substantive. Each regulation and directive comes with numerous technical standards clarifying specific



provisions or specifying reference templates or forms. Account must also be taken of whether these new provisions contravene current laws and rules. Furthermore, new IT systems need to be considered as the requirements have been increased for reporting and systems, for both market participants and the Icelandic Financial Supervisory Authority."

Nasdaq, which runs major stock exchanges throughout the Nordic region, is keen for Iceland and its neighbours to benefit from the proposed capital markets union in Europe, although it issued a whitepaper earlier in 2016 calling for a change of direction for the project. The current action plan for the capital markets union focuses on making it easier for large institutions to invest more and extend their product and service offerings, rather than improving the capital markets themselves, according to Nasdaq's whitepaper, Capital Markets Union: The Road to Sustainable Growth in Europe. Instead, the action plan should rather focus on increasing transparency, making the capital markets more accessible to smaller businesses, incentivising long-term private investment in listed equities and encouraging the development and use of disruptive technology.

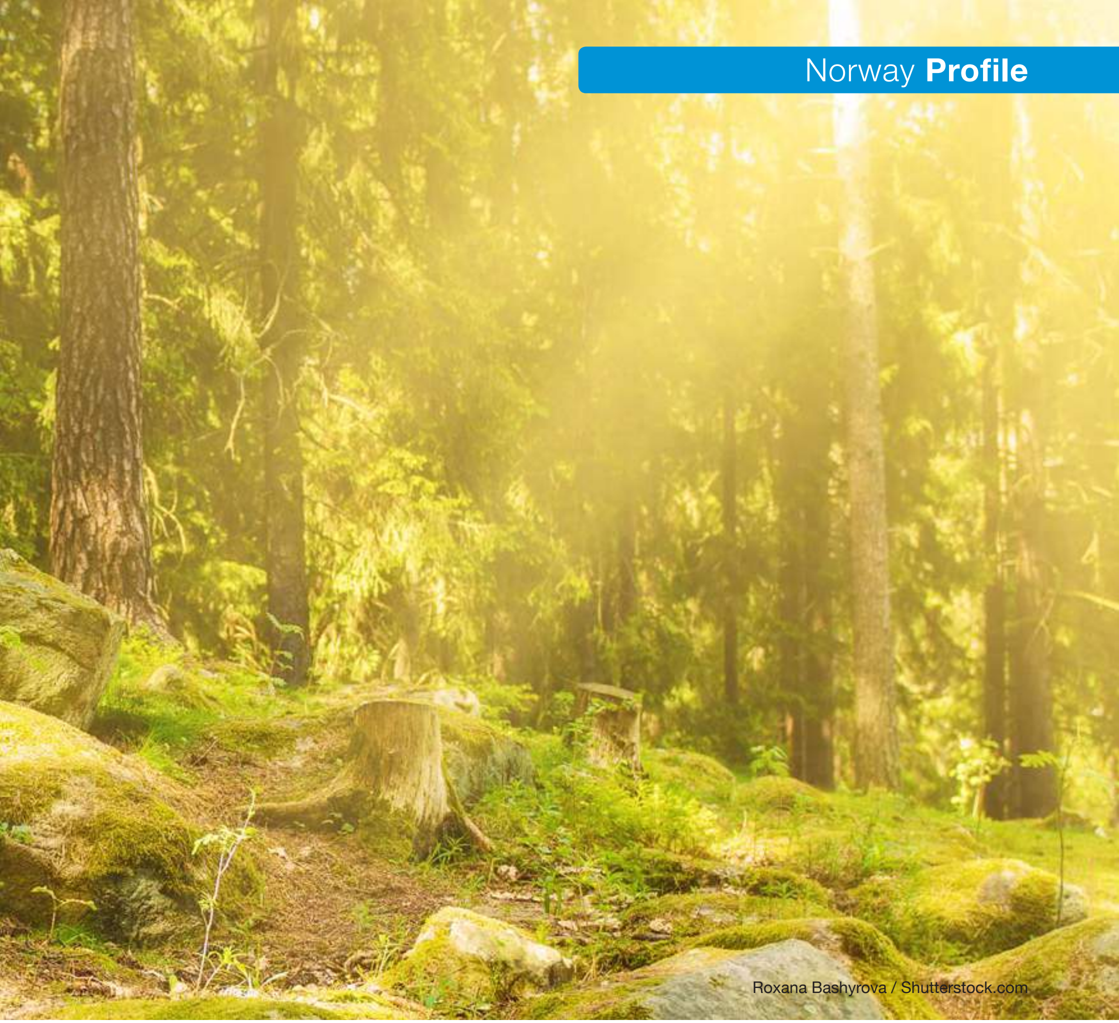
"Leveraging the capital markets is essential to allow Europe to reach its full potential," Hans-Ole Jochumsen, president of Nasdaq, said at the time.

"Instead of being too dependent on bank financing, we should make it easier for companies to raise capital through the public equity markets. Incentivising an equity-based culture and leveraging technology could have a significant impact on European productivity, innovation and job creation."

Steady as she grows

Despite challenges and volatility, the securities lending market in Norway is only getting stronger, says DNB Bank's Karin Tell Aronsen

The Norwegian securities lending market has seen yet another year of high activity off the back of the ongoing volatility in the energy market. Despite this sometimes challenging volatility, combined with intensified competition and therefore higher margin pressures, we are pleased to report that the Norwegian lending market in general is showing strong, steady growth.The low oil price and the ensuing macroeconomic slowdown is still fueling market volatility with a lot of trading opportunities. Lower interest



rates are positive for the equities market, and are also attracting investors seeking to find new revenues.

This increased investor appetite is spilling over into the securities lending market, not only concentrated on the oil and gas industry but also becoming evident in strong demand for other segments. We saw this trend commence a couple of years back, in the shadows of the ongoing demand in the energy sector that has been stealing the headlines for a while now.

However, interest and demand for midcap stocks have established a clear, uninterrupted and growing trend. The Oslo Stock Exchange´s introduction of the new Mid Cap Index last summer and the introduction of the Seafood Index this last spring could have boosted the interest even more.

These two indices together represent close to 30 percent of the total market capitalisation of the companies listed on the Oslo Stock Exchange. We therefore believe it is important to provide supply to cover demand in these important segments, leading to better liquidity and pricing of the stocks.

Norwegian lenders are known to be conservative, but they are thorough when it comes to understanding of the market, with its risks and regulations. We take that as a healthy sign. The responsibility for the shareholder to exercise voting rights is taken very seriously. While voting represents only one aspect of investors' corporate governance activities, it is of course the most visible aspect relative to securities lending, causing challenges periodically. Security recalls to restore the ability to vote at an annual general meeting are quite common.

Norway is one of the youngest securities lending markets among the Nordic countries and it was only 12 years ago that lending stock was considered. Therefore, before the change in the Norwegian Tax Act in 2004, the supply of Norwegian stocks came mainly from foreign hands. Gradually, Norwegian lenders have found their way to the securities lending market, contributing to an efficient market and enjoying risk adjusted returns.

This summer, the long-awaited approval of the changes to the Securities Funds Act is being realised, making way for new lenders to enter the market. Funds will now be able to utilise up to 50 percent of their marked value using efficient portfolio management techniques. They will also be able to lend shares more cost efficiently, bringing more revenue back to shareholders.

There is continued focus on collateral. We still see increasing interest in using equities as collateral, although not as quickly as we anticipated last year. The expected stronger interest in non-cash collateral, off the back of negative interest rates within the eurozone and our Nordic neighbours, has not materialised to the same extent in the Norwegian market yet. However, local clients continue to explore the benefits of collateral flexibility.

Continued work adapting to new regulations and requirements is running its course. We believe cost-effective support functions will become even more important, together with high-quality post trade processes to handle present and future reporting requirements.

As Norway's biggest bank and with strong local presence, we hope to be the preferred counterparty for clients requiring securities lending services in Norway as both borrowers and lenders. We serve a wide range of clients from retail clients to large international and institutional clients.

We expect the Norwegian securities lending market to grow further as we see new clients entering the arena and as market volatility continues to provide opportunities and extra revenue for both lenders and borrowers in the time to come.

We still see increasing interest in using equities as collateral

Karin Tell Aronsen
Head of trading for securities finance
DNB Bank

Swedish ‘16

Daniel Eneroth of SEB reveals how Sweden has fared so far in 2016, and predicts what will come next for the Nordic market

What would you say has characterised the Swedish securities lending market in 2016?

The market turmoil seen this year has definitely paved the way for increased demand in short positioning and the rise of new warm and special names—that is shares that trade on loan at an interest rate ranging from a few percent up into the double digit range—especially in small/mid cap names as risk appetites came back into fashion.

There was a strong rebound of mergers and acquisitions activity in Q2 after a long period of low activity in the region. This promoted an increase in demand in names such as Meda and Haldex. Furthermore, 2016 has seen a significant amount of corporate action-related activity, including capital injections, that have produced interesting opportunities for event-driven clients seeking alpha in names such as Castellum, SSAB, CLX Communications and Hemfosa Fastigheter.

The directional side has had a general skew towards mining and steel but also pharma. We can also single out a specific stock in Fingerprint Cards, which has been a fantastic earner in terms of portfolio yield for beneficial owners.

On the regulatory side, focus still remains on the effects of the liquidity coverage ratio and the net stable funding ratio, which are not only changing the dynamics of the market in Sweden but the industry as a whole. Finding routes of ensuring proper conversion of inventory into high-quality liquid assets (HQLAs) and ways of managing and monitoring balance sheet is more important than ever, regardless of role or position in the industry. This is affecting ‘on balance’ structures, such as swaps, repos, futures and options, due to the increased costs associated with these trades. It is also promoting very intensive internal discussions, with market participants investing heavily in their own models to meet these challenges.

How are the regulatory changes affecting key investors and what are they looking for when investing in alternatives?

The investor base is spread from top-tier institutions to private banking clients. In an international context, one could argue that the Swedish investor base is relatively sophisticated when investing in alternative strategies. Tailor-made structures such as managed accounts are more frequently used to address regulatory, capital and

transparency challenges and issues. Since Sweden has a strong equity tradition, long/short equity strategies have always been popular. During recent years, the most sophisticated clients have, however, started looking more at lock-up structures, which include, for example, airplane leasing and intellectual property rights.

How is securities lending perceived among beneficial owners in Sweden?

Overall, securities lending is looked upon positively. There are different views and opinions on the impact and value of lending securities, as can be argued is the case globally. Some actors have long been in the business and are happy advocates of lending, while others are traditionally more conservative and less willing to lend. However, we have gradually been noticing a change among the very actors who previously expressed an unwillingness to lend securities but are now starting to show keen interest. What we see is a new breed, if you like, of portfolio managers whom are very pro-lending as a means of active portfolio management, enabling better investment decisions with the understanding of the lending market and, not least, additional performance.

New technologies and tools today are allowing for easier front-to-back interaction and better means of trade monitoring and control for these clients, further allowing for increased transparency. We see a growing client pipeline at the moment stretching from traditional pension funds, fund managers and insurance companies to local family offices, so it is important being able to offer the appropriate service packaging for their individual needs.

What is the general trend domestically on collateral?

Sweden has traditionally been a cash collateral market, but since Sveriges Riksbank, the Swedish central bank, moved the country into a negative interest rate environment, lenders have been forced to broaden their views in terms of collateral. We are finding a high willingness and flexibility from beneficial owners to work on their eligibility schedules in a joint effort to serve their necessary risk requirements, while also weighing in the possibility of higher portfolio utilisation and return.

What about the future?

It is impossible not to mention anything about the challenges imposed by the dawn of new regulations and there are no spoilers in saying that we are focusing tremendously on technology at SEB these days. We are monitoring the development of the central counterparty market, which we believe will take off with the ever increasing focus on balance sheet, further trade automatisation and smooth front-to-back interaction and price transparency, enhanced reporting, and not least, collateral flexibility. SEB has already been engaged in collateral transformation trades for a few years and the demand for HQLAs has probably only been the start of what lays ahead.

This has put increased focus on new ideas and views of staying compliant, but at the same time, not restricting business is key. It is really about keeping an entrepreneurial mindset these days.

"Portfolio managers are becoming very pro-lending as a means of active management"

Daniel Eneroth
Equity finance trader
SEB

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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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