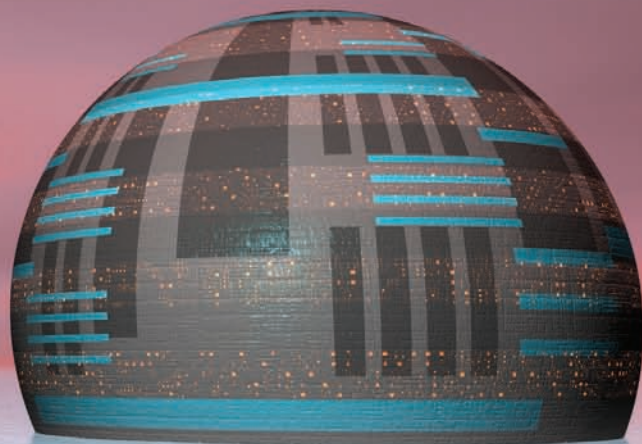
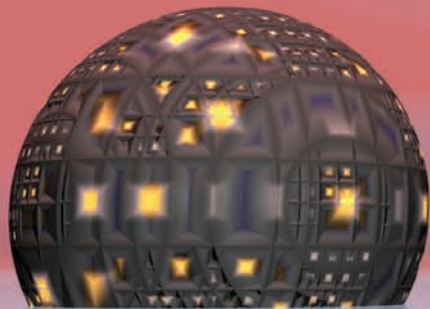


The focus on ease of service is a key element in the skittish Asian landscape, which has taken to SBL unevenly. According to the 2008 Pan Asian Securities Lending Association (PASLA) newsletter, last year marked something of a watershed for securities lending with a heightened focus on cash collateral reinvestment, counterparty credit and enforced restrictions on short selling as a result of the global fallout of the sub prime and banking liquidity crises. Photograph © Paul Moore/Dreamstime.com, supplied February 2009.



While securities lending practitioners working in Asia accept that the volume of business is not of the order of late 2007 and early 2008, they remain upbeat about the medium to long term prospects for the market. Although the credit crisis has caused something of a contraction in the multi-trillion dollar securities lending business, volumes have begun to pick up in Asia in the opening months of this year. Moreover, the drive towards market liberalisation in key markets, such as Malaysia, India and China, is encouraging securities lending agents to think about positioning themselves to leverage the inevitable uptick in business throughout the region over the medium to long term. Francesca Carnevale reports.

BRIAN LAMB, CHIEF executive officer (CEO) at EquiLend's New York headquarters, is upbeat. "EquiLend's newest trading service suite Trade₂O looks to be a very good fit for the Asian market, either for single trades, list of equity trades or baskets of equities." Lamb says that Trade₂O has gained significant traction and its screen based trading user interface "is especially well suited to the Japanese securities borrowing and lending (SBL) market."

Trade₂O allows traders to negotiate and agree trade terms for both equities and fixed income securities and process them straight through to a proprietary system. "From what I know of securities finance, a lot is still done by phone, Bloomberg and Excel spreadsheets. Our service is a good combination of these methods and is easy for

FLOATING SLOWLY UPWARDS

people to use," explains Lamb. "Clients can get it up and running in a day."

The focus on ease of service is a key element in the skittish Asian landscape, which has taken to SBL unevenly. According to the 2008 Pan Asian Securities Lending Association (PASLA) newsletter, last year marked something of a watershed for securities lending with a heightened focus on cash collateral reinvestment, counterparty credit and enforced restrictions on short selling as a result of the global fallout of the sub prime and banking liquidity crises. By the end of 2007, says PASLA, the securities lending market had grown by a massive 825% from the start of 2004, with a market value estimated at \$910bn. It has been fuelled by market liberalisation, an explosion of hedge funds anxious to

leverage fast growing and still volatile Asian stock markets, and the provision of a raft of securities by beneficial owners looking at long term returns.

However, the Asian securities lending market remains concentrated. Japan, Australia and Hong Kong still dominate the Asian market by a long mile, explains Lamb, "The rest have seasonal characteristics." In part this is because a significant element of demand for Asian stocks is actually sourced out of the UK, Europe and the United States. Outside of Japan and Australasia the local supply of securities and demand for stocks is generally limited to government pension funds, central banks and sovereign wealth funds. "Central banks sit on huge amounts of assets," notes Philippe Metoudi, member of the executive board and head of client relations Asia-Pacific, Middle East and Africa at Clearstream, which claims to work closely with some 21 central banks in the Asia-Pacific region in this regard. When the central bank of Mongolia, for instance, needed an agent last year, it approached Clearstream to take over responsibility for its portfolio of assets and hand it over to professional distributors in the industry.

Another source of securities is beneficial owners in the developed markets or large asset aggregators. George Trapp, regional manager for securities lending at Northern Trust, which has been lending securities since 1981, explains that while the provision of securities on loan is predominantly sourced through the global asset management firms, "our asset base in the Asian region has grown substantially as Northern Trust has won custody and securities lending throughout the entire region."

This patchwork creates, in turn, two clear streams of demand for Asian securities, notes Trapp. In the larger developed markets of Hong Kong, Japan and Australia, "similar to the demand profile in the United States and Europe, we see a distinction between large cap (general collateral) stock and small cap (hot) stock. Currently we are seeing many large cap names trading hot in the current environment. That is very different to the situation six months ago and is providing incremental returns to clients," he says.

In the smaller SBL Asian markets on the other hand, "there is often a premium paid for any stock, particularly those in Taiwan and South Korea," he adds. While fixed income remains a substantial element in securities lending in Europe and the United States, in Asia it is a marginal activity and largely confined to Japan and Australia. However, there may be opportunities for growth in the fixed income markets in the future as those markets develop further in Asia.

In spite of the short term selling restrictions which recently impacted securities lending in selected Asian markets in the last quarter of 2008, over the medium to long term market, professionals say the region is replete with opportunity. "PASLA recently hosted a roundtable on Malaysian SBL," reports Trapp, a member of the PASLA executive committee, who says that the industry association encourages collaboration between market regulators,



Brian Lamb, chief executive officer of EquiLend, says, "From what I know of securities finance, a lot is still done by phone, Bloomberg and Excel spreadsheets. Our service is a good combination of these methods and is easy for people to use," explains Lamb. "Clients can get it up and running in a day."

exchanges, and other SBL market participants. PASLA is currently focused on assisting in key regional markets, namely India, China and Malaysia. "It is an exciting development," says Trapp. He is encouraged by the response to the Malaysian round table but sees these SBL markets as work in progress.

With so much in flux in the regional and global markets, it is no wonder then that questions about the cost of securities finance, flexible collateral and collateral management have come to the fore in recent months. "Tri-party repo has not yet picked up in Asia," concedes Stephan Lepp, member of the executive board of Clearstream Banking in Frankfurt and head of the firm's Global Securities Financing (GSF) business, who explains that uncollateralised money market trading is dominant.

However, "collateral management is just beginning to pick up," he says. Before the global liquidity crisis really took hold Lepp's GSF had achieved monthly average outstandings (on a global basis) of a record €415bn in May (up 27% on the same month in 2007). Since then, volumes have continued to grow, reaching €428bn on average for the fourth quarter of 2008, an almost 20% increase over the same period in 2007 (which touched €349bn). Lepp underscores the growing importance of secured financing and the continued flight of collateral towards central liquidity pools going forward. "Through to the end of 2007, many people did uncollateralised trading; only after

Lehman's collapse did collateral really return," notes Lepp. "Our job is to train the market in terms of what happens in Europe but we are not in Asia as school teachers. You simply cannot force repo on the pan Asian marketplace," he adds.

Collateral is a topic that has been in focus for over two years. eSecLending, a third party securities lending agent that utilises a competitive blind auction to determine the optimal route to market for their clients' assets, recently established a presence in the Asia Pacific region, building upon their relationships in the region. Giselle Awad, senior vice president of eSecLending Asia-Pacific explains. "Market turmoil has raised awareness amongst industry participants and in particular the cash collateral reinvestment portion of a lending program has become more of a focal point. The focus on counterparty risk management has also increased. All of this has caused beneficial owners to place an increased emphasis on risk management across both the lending and cash collateral reinvestment portions of their programs."

On the demand side, volatility in the cost of financing means, "borrowers reward lenders that take a broader array of collateral," notes Trapp. From the point of view of a lending agent such as Northern Trust, Trapp clearly understands the need for quality collateral that can be valued on a mark to market basis on a daily roster since this is what his clients demand.

Clearstream, like other firms, is looking over current market volume to a future of powerful consolation as major emerging markets, such as China, promise to come on stream. "Right now, Clearstream is the only centralised securities depository (CSD) with a link to the People's Republic," says Lepp. "Up to now this has only encompassed B shares, and which is only a small part of the total. However, when the Chinese start, they will start fast and everything will happen at once."

The biggest challenge for securities lending in Asia going forward, thinks Equilend's Lamb, is a "protracted continuation in the economic slowdown, which might impact on trading strategies." He points to the pull back by hedge funds in particular, a fact underscored by Northern Trust's Trapp, who has noted a decrease in demand from the borrowers in addition to the lower asset values. However, Trapp believes that over time, "money will flow back to the SBL market as demand increases for the trade strategies that require necessary liquidity that is provided by SBL."

Awad agrees, "While current lending volumes across the market are lower than in years past, we do expect an increase in activity as we head into the 2009 dividend season. Our experience so far this year confirms that borrowers are still bidding aggressively for attractive supply," she says. "We conducted several auctions in January 2009 totalling over \$50bn in global equities and fixed income securities with over 15 global banks and broker dealers placing bids. We were encouraged by both the levels of the exclusive bids received and by the breadth of participation across borrowers."

However, Awad notes that, "Demand has shifted in some areas where one market may have historically commanded



George Trapp, regional manager for securities lending at Northern Trust, says while the provision of securities on loan is predominantly sourced through the global asset management firms "our asset base in the Asian region has grown substantially as Northern Trust has won custody and securities lending throughout the entire region."

higher bids in years past while others are seeing much stronger bids in 2009." In addition, eSecLending predicts that as more beneficial owners in Asia recognise securities lending as an investment management and trading discipline that the global trend in recent years toward unbundling the lending decision from custody and the use of multi-manager programmes and specialists will only accelerate in Asia in 2009 and beyond.

From the agent lender standpoint Trapp believes beneficial owners will continue to be more involved in their lending programmes as a result of the recent market volatility. "We are having more dialogue with our clients, who are showing more interest in the daily reporting we provide around the risks and returns of their securities lending programme," says Trapp. It is a view endorsed by Clearstream's Lepp, who says, "We are being asked a lot of detailed questions, particularly about the use of collateral."

Returns on lent assets remain a salient consideration. "Obviously clients understand that it is still important to generate incremental revenues, and they remain in general positive." Even so, Lamb thinks that market efficiencies are key in this interim period. Lamb firmly believes that EquiLend's "trade and post trade solutions, when used as designed, is the most cost effective solution I have seen in the market. In fact if all pieces of the offering are used as designed we are dirt cheap, though more than one element in the service has to be used to gain this level of efficiency. Using just one element, will not achieve that end, frankly."