FINANCIAL NEWS

Asia beckons for securities lenders

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04 Oct 2010

It is not only investors turning to the powerhouse economies in Asia to bolster their incomes: securities lending agents have also focused on the region's growing hedge and mutual fund managers. Securities lending revenues in the region have rocketed by 25% in a year while those in western markets have slowed to a virtual halt.

Fast-growing Asian equity markets mean higher share prices and better fees for lenders of stocks and those facilitating the lending. Will Duff Gordon, senior researcher at Data Explorers, which monitors the volume of securities made available to lend by investors and the amount taken by short-selling hedge funds and other marketmakers, said: "This time last year the Data Explorers peer group were earning $400k a day from lending Hong Kong equities, now this is over $500k.

"As equity markets rise in Asia so does the income from lending rise, by the same tide."

In the 12 months to the end of September, the MSCI Far East index rose 7.9%, compared with the firm's European index, which rose 0.1%.

Paul Wilson, global head of client management and sales for financing and markets products at JP Morgan Worldwide Securities Services, said: "The evolution of securities lending in Asia has been slower in the region than elsewhere, but I believe the growth over the next five years will outstrip other areas and continue with double-digit increases year on year."

This month Data Explorers opened an office in Hong Kong, citing demand from local investment companies and asset owners. The company also now transmits a weekly news update on the sector in Mandarin and Hindi.

EquiLend, a platform through which asset managers can lend out and borrow stock, is also opening a Hong Kong office – its first outside London and North America.

HSBC, which has been edging back closer to the region for some time, will open a branch of its prime services platform, a combination of custody and prime brokerage operations, in the first three months of next year. Barclays Capital expanded its securities financing team in Asia by 65% last year.

Richard Meek, head of securities lending relationship management for the Asia-Pacific region at Brown Brothers Harriman, based in Hong Kong, said: "The number of firms setting up offices in the region is increasing, due in large part to the belief that it is leading the global economic recovery.

Institutional investors in Asia have not been as impacted as in other areas and markets here have long-term growth prospects."

Simon Lee, senior vice-president at agent lender eSecLending, agreed. He said: "Historically, institutional investors in Asia have lagged behind their global counterparts in terms of the evolution of their securities lending programmes. Consequently there is a strong argument to suggest there will be significant growth from both new institutions now making their portfolios available to lend, and from existing lenders expanding their current activities."

Since the end of September 2008, the number of stocks based in Asia that were available to lend has increased 19%, according to Data Explorers. In Europe, the number has shrunk by almost 3%. In Europe and the US, the main securities lending markets, demand to borrow stocks has also fallen sharply as shorting activity has dwindled in response to regulatory pressure, political criticism and volatility, tempering appetites for taking directional bets.

Lending agents in Europe have begun trying to swipe each other's clients as the pool of asset owners willing to offer securities has hit maximum capacity, but there is plenty of room for expansion in the Far East. Local lenders are mainly central banks, sovereign wealth funds and large pension schemes at the moment, but the growth potential for fund managers has attracted leading players.

Yvonne Wyllie, head of securities lending at RBC Dexia, said: "A primary contributor to the growth in the Asian markets has been the dramatic increase in hedge fund activity, which in turn has created greater demand for securities borrowing to support the various trading strategies of the funds."

Several large hedge fund managers have opened offices in the Far East, looking to capitalise on investor demand from both hemispheres. London hedge fund manager Algebris Investments opened an office in Singapore in May, and Marshall Wace announced a joint venture with Asian specialist GaveKal Holdings in June 2008.

A big attraction for hedge funds is the number of initial public offerings in the region. Emerging market IPOs accounted for 71% of global volume in the first nine months of this year, according to Dealogic. Seven of the world's top 10 IPOs, in value terms, occurred in Far Eastern markets.

However, it is not all plain sailing. Some jurisdictions do not yet allow securities lending. China launched a pilot scheme to allow the practice on a limited range of companies, but further movement on the project has been hampered by the financial crisis.

Francesco Squillacioti, Asia-Pacific regional business director for State Street's securities finance division, said: "The region consists of several distinct markets which are in various stages of their evolution with regard to securities lending. These are not barriers, necessarily, but this diversity means there are a lot of markets to understand, operational frameworks to navigate, and regulations to digest."

"In many ways, the factors which make Asian markets attractive also present the challenges."