

GLOBAL CUSTODIAN 2009 SECURITIES LENDING SURVEY



Top Rated and Best in Class in
“More than \$10 billion in assets” category

eSecLending
SECURITIES FINANCE TRUST COMPANY



eSecLending

No agent lender is quite like eSecLending. If its processes deliver the benefits claimed—higher returns, lower risk, greater transparency and enhanced control—it is not surprising eSecLending retains pole position in this survey with a set of average scores that eclipse every other provider. **“Excellent client service and lending performance,”** says one client, while a second praises **“good service and understanding of program requirements.”**

If the auction methodology places limits on the speed and scale of growth, it has proved effective enough for eSecLending to expand from its bases in Burlington and Boston to encompass fully fledged operations in the other great Anglo-Saxon pension markets of London and Sydney. **“Client service and reaction time is excellent, revenue consistently hits target, collateral is well-managed, which was demonstrated during the Lehman collapse,”** writes a client. **“Excellent detail, with all the numbers behind the bid process, which was extremely helpful for transparency during the board approval process.”**

eSecLending reckons that its blind auctioning of portfolios as exclusives or multiple exclusives can lift

returns by a third to a half, and the average score it collects for earnings performance is indeed astonishingly close to perfection. Principal bids naturally make great demands of risk management procedures, and eSecLending predictably collects easily the best average score in the survey on that front too.

In fact, the litany of strengths itemized by one client—“Price transparency, strong revenue returns, robust controls, excellent service”—might easily have been composed by the eSecLending marketing department. Even the lowest average score secured by eSecLending—for operational capabilities, which a major client admits “could improve”—is the best of any provider in the survey.

So what is not to like? “Size and track record, which has been a partial factor in renewing indemnity insurance for equities, and the subsequent temporary removal of equity as a collateral type,” is the answer of one respondent, who also noted “an initial reluctance to communicate bad news fully.” Yet even that determination to manage perceptions, in the most unpromising of circumstances, is eloquent.

Table 2: League Tables

MORE THAN \$10 BILLION		
	Provider	Score
1	eSecLending	6.73
2	Brown Brothers Harriman	6.36
3	Dresdner Kleinwort	6.03
	Global	5.72
4	State Street	5.57
5	The Northern Trust Company	5.50
6	Citi	5.36
7	J.P. Morgan	5.33
8	The Bank of New York Mellon	5.29

PEER GROUP 2		
	Provider	Score
1	eSecLending	6.73
	Global Average (Peer Group 2)	6.05
2	Dresdner Kleinwort	6.03
3	Wachovia Global Securities Lending	6.02
4	PNC Global Investment Services	5.77
5	RBC Dexia Investor Services	5.50



Client Comments from the Survey

“Client service and reaction time is excellent, revenue consistently hits target, collateral is well managed, which was demonstrated during the Lehman collapse. Excellent detail with all the numbers behind the bid process, which was extremely helpful for transparency during the board approval process”

*- Luxembourg client,
US\$10-25 billion in assets*

“Excellent client service and lending performance”

*- United States client,
US\$25-50 billion in assets*

“Major strengths of eSecLending are price transparency, strong revenue returns, robust controls and excellent service”

*- United Kingdom client,
US\$10-25 billion in assets*





Methodology

The past year was one of tremendous turbulence in the securities lending industry, which was already reeling by the time Lehman Brothers was allowed to fail in September 2008. As authorities scrambled to react, securities lending and short selling came under intense political pressure, and regulators in many jurisdictions imposed a variety of restrictions on short selling—the principal source of demand to borrow securities. As asset prices crashed, large but unrealized losses in cash collateral reinvestment pools became a further source of negative publicity for the industry, and occasioned litigation. Yet despite these challenges, 2009 saw our annual Securities Lending Survey grow significantly. The total number of rated providers rose from eight to 12, and the rate of response was up by 5%. In total, 140 responses were received and of those, 130 were authenticated for inclusion in the survey. It is important to note that the survey, which was separated from our annual Global Custody Survey two years ago, is a survey of beneficial owners and not borrowers.

In addition to general background and profile questions to help us understand the lending profile of each respondent, the survey questionnaire included 26 rating questions that cover the following eight service categories: Earnings Performance, Risk Management, Relationship Management, Client Service, Product Development, Reporting, Operational Capabilities, and Com-

pliance with Client Guidelines. Only a handful of minor changes were made to the questionnaire, which was extensively remodeled in 2008.

In the rating section of the survey questionnaire, respondents were asked to rate the quality of service from their providers on a scale of 1 to 7, where 7 is excellent; 6, very good; 5, good; 4, satisfactory; 3, weak; 2, very weak; and 1, unacceptable. The overall scores are a weighted average expression of how a securities lending service provider scored in each area. The weightings are governed by two factors. First, credit is given for scoring well in areas named as important—respondents were invited to name the most important question in each category—by all respondents in the completed, qualifying questionnaires. Secondly, respondents are themselves weighted, according to the number of service providers used and the approximate value of the business they place with the provider.

This survey utilizes the ratings scale familiar in all our other surveys, where Top Rated  is based on securing an average weighted score that is superior to the average weighted score for all providers in the survey in that category, while a Commended  rating is based on a mixture of scores, comments and other factors. Providers whose scores are well adrift of the overall survey average are designated as Unrated , while the designation Not Rated  is used to indicate where an insufficient number of responses were

received to rate a provider. Providers are eligible to be rated in a total of 10 categories. These include three assets-under management categories (Less than \$1 billion, \$1-10 billion, and More than \$10 billion) and three regions (Asia, Europe and North America), as well as Single or Multiple Provider. The threshold to secure a rating in these categories was set at five responses. To secure a Global rating, a provider must have been rated in at least two regions.

In addition to receiving ratings, providers are eligible for the Best in Class  awards familiar in other Global Custodian surveys, which recognize excellence in servicing clients of different sizes, types and locations in different service areas. They are available in each service area for all nine rating categories, excluding the Global category. Best in Class awards go to any provider that achieves an overall weighted average score that equals or betters the global weighted average score in that combination of rating category and service area. A full list of benchmarks is available in table 1, and providers are ranked according to rating and score for each category in table 2. Included this year, for the purpose of comparison, are two peer group tables that were not included in the rating categories. Categorization into peer group tables were assessed by the size of providers' lending portfolios and their ability to lend equities and fixed income both internationally and domestically.