

Global Custody Forum

Securities Lending Panel



Securities Lending Market

Headline Figures



\$19.8trn ↑

- ▶ Assets Available to Lend (as at 29 June 2018)
- ▶ Up 8.5% on December 2017 (\$18.25trn)

\$2.4trn ↑

- ▶ On loan balances (as at 29 June 2018)
- ▶ Increase of 10.6% on December 2017 (\$2.17trn)

Figures courtesy of ISLA Securities Lending Market Report - 9th Edition, Sept 2018

Securities Lending Market Industry Revenue



Estimated Revenue for 2018:

>\$10bn

Industry Wide Securities Lending Revenue

Securities Lending Market Trends



- ▶ Government Bond Lending increasing - c. 46% of all loans
- ▶ “Term Trades” account for 16% of all Government Bond Loans (June 2018)
- ▶ Cash collateral continues to decrease, non-cash collateral increasing
- ▶ Equity collateral (in Triparty) slightly down, Government Bonds slightly up
- ▶ 45% of Government Bond Collateral was Asian or North American

Figures courtesy of ISLA Securities Lending Market Report - 9th Edition, Sept 2018

Key Trends in Securities Finance & Collateral Management

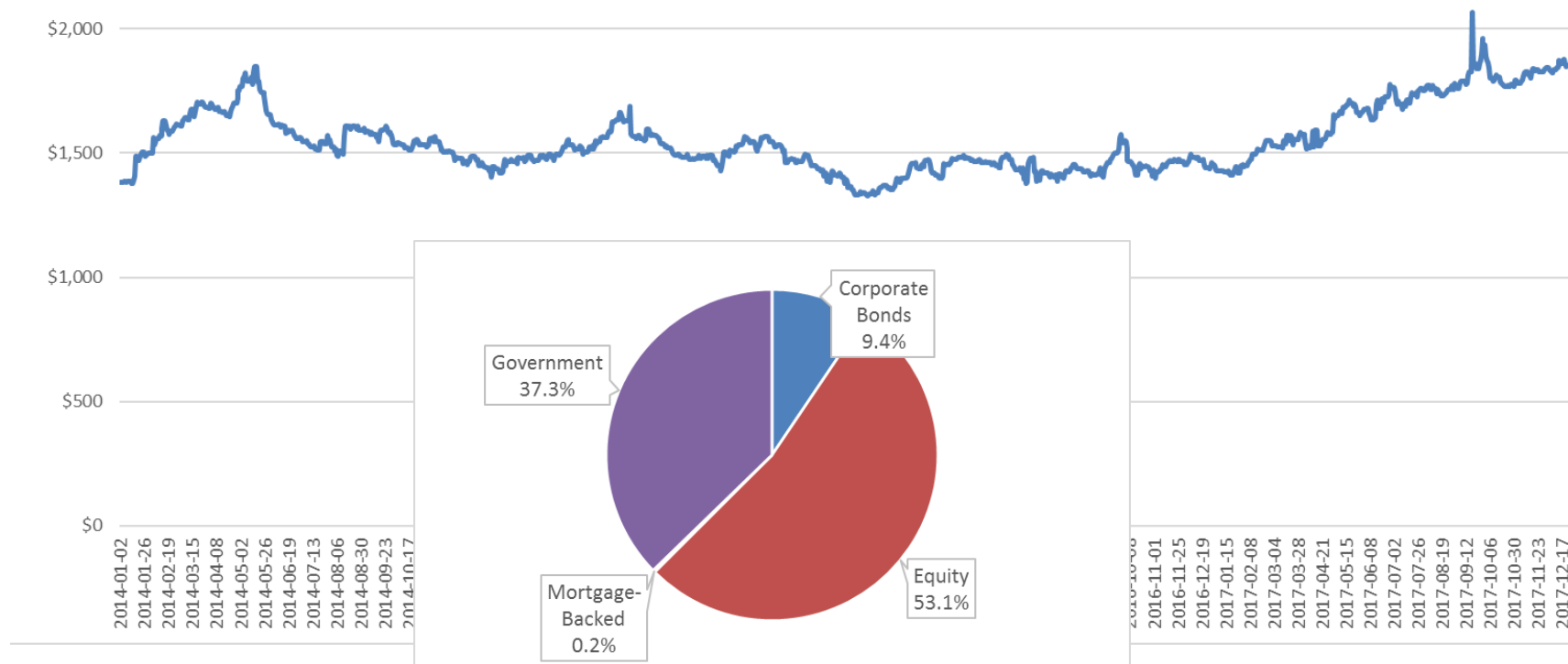
Structural Trends

- **From the transfer into the front office, to the combination of equity and bond businesses, and forward to the creation of enterprise collateral management, the market has changed beyond all recognition**
- **Collateral types and new products have brought structural shifts**
 - Term trading of HQLAs, Evergreens, emergence of ETFs
- **Constant evolution in the market has arisen as a result of:**
 - Advancing technology
 - Market demands and innovation
 - Revenue and efficiency pressures
 - Increase in passive asset management
 - Regulatory drivers from settlement security and prudential capital to transparency

Key Trends in Securities Finance & Collateral Management

Market Developments

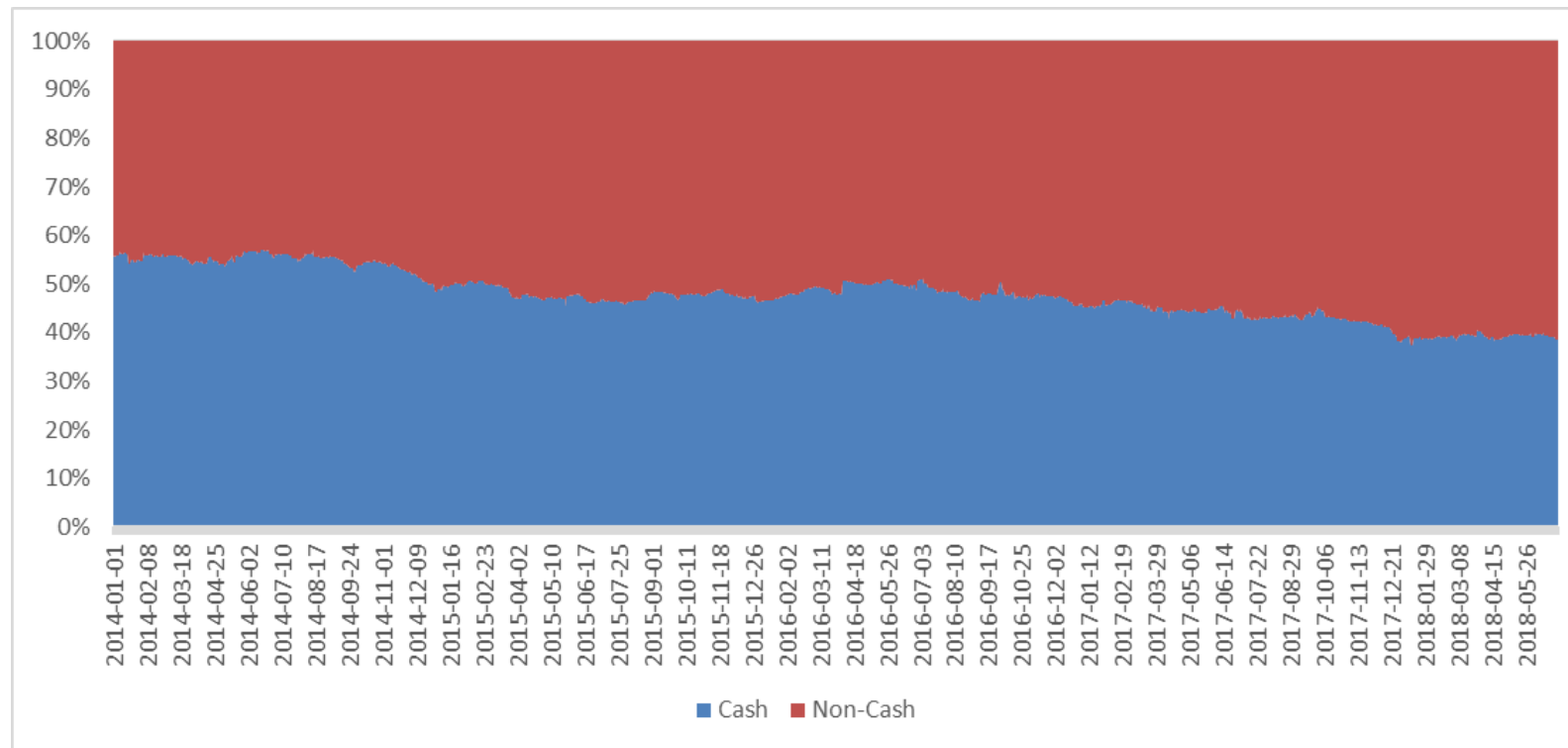
- On loan values have grown by one third over three years
- Equities up from 57% to 65% of market supply, and flat at 53% of loans
- US Treasuries down to 21% from 28% of loans and up 1% to 9% of supply



Key Trends in Securities Finance & Collateral Management

Market Developments

- The cash and non-cash collateral mix is changing
- Over three years, from 56:44 to 38:62 (June 2018)
- This represents an increase of \$660 billion of additional non-cash collateral



Key Trends in Securities Finance & Collateral Management

Market Developments – HQLA and Term Trades

- **US Treasuries have fallen as a percentage of HQLA**
 - Growth is in Asia, especially Japan
- **Overall Government bond borrowing on the rise**
 - Increase since 2017 exclusively against non-cash collateral. Equity collateral also important
- **Mutual funds, including UCITS still suffer from structural & regulatory issues**
 - They supply 47 percent of lendable assets, but account for 19 percent of loans

Key Trends in Securities Finance & Collateral Management

Regulatory Changes and Trends

- **CSDR – Central Securities Depository Regulation**

- Potentially huge impact on Securities Finance, but not getting much airtime
- Large fines threaten lending liquidity as risk rises, buy-ins may increase, lenders are pushed out

- **BEAT – Base Erosion Anti-abuse Tax could damage inter-company lending, at least from the US outside**

- **SFTR and the FSB Transparency Directive**

- Impact on the market across Europe including fall out of lenders in EMEA/Middle East
- Disclosure concerns especially for out-of-scope lenders
- Increased costs and scrutiny with additional likelihood of future regulation, best practices and process improvements/standardization
- Roll out of FSB TD across multiple jurisdictions
- Real data ethos as opposed to cleansed and matched
- End of ALD and introduction of “Smart Buckets”