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THE PURPLE

A DATALEND RESEARCH PUBLICATION

CONTENTS

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DEAR READERS,

Please enjoy our third edition of The Purple. We continue to receive very positive feedback on its content. Once again, our global DataLend and Marketing teams have done an outstanding job producing a very informative and top-notch assessment of the state of the global securities lending markets.

Thank you to all of our clients who supported us in the recent Global Investor/ISF survey. We were very proud to receive the awards for Best Market Data Provider Globally and Best Trading Platform Globally. This reinforces all the innovative work we have created and delivered for our clients' advantage over the last few years. NGT continues to attract new and different types of trading flow. In fact, our trading volumes are up more than 25% year over year. DataLend has enjoyed great success with its Client Performance Reporting tools, and I am very excited for our clients to see and use our new and greatly improved Excel Add-In and API. Watch this space!

As we move forward, we will aim to achieve this level of success in all our product offerings. We are particularly pleased with the many advances we made this year in our Post-Trade Suite of services.

Clearly, the regulatory environment continues to have a strong influence on our roadmap for future development. Whether it is central clearing, MiFID II, Brexit, SFTR or just creating better transparency for the benefit of all, we are busy working on innovative solutions for the securities lending industry.

Thank you for your continued support, and happy reading!

Brian Lamb
CEO, EquiLend
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DEAR READERS,

We would like to extend our thanks to our loyal and engaged client base for helping us make 2017 such a pivotal year for DataLend. We rolled out our new Client Performance Reporting (CPR) tool early in the year and saw its usage increase by over 70% as key agent lenders and beneficial owners embraced the product. Following the rollout of CPR, we then brought DataLend Portfolio, our dedicated beneficial owner benchmarking tool, to the market.

Within our core DataLend tool, we introduced onshore versus offshore data for key markets such as Australia, Korea, Taiwan and Japan, and introduced a Market Movers table highlighting the biggest rerates and costs to borrow. As we round out 2017, the DataLend team is extremely excited to introduce our new non-cash collateral peer group matching and our enhanced Excel Add-In tool and API.

At DataLend, it is our aim to continue to innovate and to be responsive to your ideas and suggestions. We look forward to continuing to work with our client base to provide the transparency needed to optimize performance.

Nancy Allen
Global Product Owner, DataLend
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ROUNDTABLE

HOW BENEFICIAL OWNERS **USE MARKET DATA**

Bill Foley
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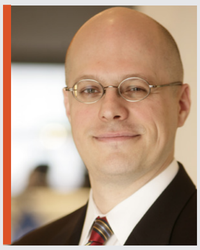

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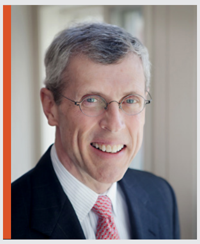

Bill Pridmore
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Consultants specializing in working with firms to optimize their lending programs discuss how their beneficial owner clients are making the most of securities finance market data

In your experience, how do most beneficial owners consume securities lending data—reports from their agents, direct access to a data provider, in-house proprietary data? What metrics do they look for and why?

Bill Foley: Historically, the majority of beneficial owners took the securities lending data provided by their agent lender, with only the largest participants having a direct relationship with the data providers. While this is still the case, I see the picture changing somewhat.

The beneficial owners are asking more questions about the data, drilling down to a much more detailed level than was perhaps the case previously. This has led some participants to take data directly as they look to interpret the information independent of their agent lenders. However, regardless of the chosen route, there is a far greater understanding of how the data is compiled and what the data means—and this is the critical point. The information available must be relevant and understood fully to ensure that it allows beneficial owners to make informed decisions, understand their program performance and meaningful peer comparison within the context of the wider market and the direction of travel.

In terms of the metrics that beneficial owners focus on, these vary on a case-by-case basis and will relate to the overall aims of the lending program. Obviously, revenue/fees generated is the focus, but, again, there needs to be context. Some are focused on ensuring that revenue on each transaction is at least in line with the market; others look to gauge how their service providers are performing overall. Increasingly, however, beneficial owners are using data to understand how their chosen program parameters are delivering performance against their peers. This can be a powerful tool when looking to loosen or tighten certain aspects of their lending activity.

Josh Galper: We see a bifurcation in the market where numerically, most beneficial owners get their securities lending data from agent lenders, but there is a leading group that gets data directly for their own analyses. The group that receives data from agents is primarily concerned with verifying some level of best execution. The group with their own data are tracking opportunities in the market, feeding back securities lending information to portfolio management teams, and of course monitoring for best execution. A very small group of beneficial owners is using multiple agent lenders and tracking best execution by comparing their internal results of concurrent loans in the market.

Sarah Nicholson: In my experience, beneficial owners fall into two clear categories: the complex, engaged beneficial owner, who will have sourced data directly and will be proactively reviewing various aspects of their data, and the less complex or engaged, who will see data provided by their agent lender as part of the regular review process. I often get asked, "How can I trust the data my agent lender provides?"—frequently from beneficial owners who use more than one agent lender and get conflicting information. I always suggest direct access to the source, but often this is perceived to be prohibitively expensive or complex to achieve, although this is not necessarily the case.

Bill Pridmore: Most beneficial owners get virtually all their securities lending data from their agent directly. Few have the resources or time to utilize direct access or build a proprietary system to manipulate lending data. As for the metrics, the most sophisticated beneficial owners are always looking to make sure they can demonstrate to their stakeholders that the agent is doing a good job. This means forming some type of performance comparison that demonstrates their lending performance is within the bounds of other similar market participants.

Do you have any anecdotes or examples of how beneficial owners have benefitted from securities lending market data?

Foley: I think there are probably too many to mention! Not all of them will be seismic in impact, but I can think of many examples where data has had a positive impact on a beneficial owner's lending activity. Of course, many are examples where revenue has been enhanced, but there are many others where aspects of the lending program have been changed for the better as a result of data highlighting areas for improvement.

Galper: There are two examples that stand out in beneficial owner use of securities lending data. The first is using data to engage in proactive conversations with agent lenders. Whether initiated by the agent or the lending client, the ability to look at the same data independently facilitates the discussion about the trade opportunity and where it is going. The second is integrating securities lending data with portfolio decision-making; this is the next level of advancement in securities lending data management.

Nicholson: I have used data in my consultancy work to back up the commercials of strategic change, both in respect of volumes and service provider change. It is most often an act of enlightenment when a beneficial owner is able to see peer group performance analysis and understand how their risk appetite and returns in lending are so intrinsically linked, as well as how all agent lenders are not equal!

Pridmore: You can really learn some surprising things when you look at the data. For one client with a fairly large program at a custodian, we discovered that roughly 80% of their income was being generated by specials, but 80% of their loan volume (and the associated cash collateral reinvestment risk) was producing only 20% of their income. We were able to work with the custodian to modify their lending guidelines to focus on the high-margin loans and discourage low-margin, high-volume lending.

In another situation, I was able to use market data to change a beneficial owner's negative view of lending. In that case, they had stopped lending because of the view that it was not worth the potential risks. I was able to demonstrate, using market data, that if they lent a handful of their positions they could generate an attractive incremental basis point return for the entire portfolio with minimum risk.

How important is market data to beneficial owners' securities lending programs?

Foley: As outlined above, if the data is relevant, fully understood and applied in the correct context, I think it is an extremely effective tool to help beneficial owners shape and manage their programs as well as informing their discussions with service providers.

Galper: Every firm needs data for at least a static report to show best execution, but this could be a quick review, then reports are filed away on a quarterly basis. The historical practice has been a casual review, but best execution monitoring is growing in importance with regulations like MiFID II. For beneficial owners actively engaged in their lending programs, data is critical. In an ideal world, all beneficial owners would be actively engaged with strong fiduciary oversight and conduct an annual review on their agents and trading practices using good data, but this does not always happen in practice.

Nicholson: I think this depends on their level of engagement. I know, for some, data drives all decisions and is proactively utilized. However, recognizing that participation in securities borrowing and lending isn't a core focus of any fund strategy, for many [beneficial owners] revenues are still a "nice to have," and they are not able to provide the focus on data that they could. Whilst it is undeniable that proactive management of lending activity using market data can improve virtually any beneficial owner's returns and without significant additional risk, it may not always be sufficient to warrant the prioritization of this.

Pridmore: I advise clients that market data can be used as a good check on the performance of their lending agent. For many, it is the only source of information that is independent of their agent, and an analysis of that data can lead to important conversations on performance with their agents. Performance market data may not be the only consideration in retaining a lending agent, but it is an important part.

Do beneficial owners make program decisions based on securities lending data, or do they leave that to their agents?

Foley: They certainly do. Securities lending data plays an increasingly important role in progressing (or not) a proposal and building a business case/justification. This is another reason why we see an increased demand for direct access to data providers and independent analysis.

Galper: Getting back to the idea of market bifurcation, most beneficial owners leave daily decision making to their agents. A small group has taken a different, more profitable approach, and is using the data themselves to create or respond to trading ideas in cooperation with their agents.

Nicholson: Decisions fall into many buckets, whether it is a risk management/mitigation decision, a regulatory one or a commercial one, and clearly the drivers behind them will vary significantly. Focusing on the commercial decisions, these are most often taken in reaction to market demands or agent lender proposals. The appointment of an agent lender means that the beneficial owner, by definition, may not be close enough to the day-to-day market to identify opportunity and will rely on the agent lender. Or, they may be notified through existing relationships with the large borrowers. But either way, data is increasingly used to assess or evidence the impact of potential decisions. Risk decisions may be taken more independently or in reaction to events in the market, but again, increasingly beneficial owners want to understand the impact and will look to data to explain it.

Pridmore: Most beneficial owners have some sort of fiduciary responsibility to evaluate the performance of their lending activity. They can't rely solely on their agents' assurances. So they do use market data to evaluate their agent's performance on a periodic basis. This can take the form of a regular quarterly or annual performance review, or to help evaluate the veracity of projected income.

How actively do beneficial owners review securities lending market data—on a trade-by-trade basis, at quarter-end or somewhere in between?

Foley: All the above! I have worked with clients who review all lending transactions daily and others who use the data to review their overall performance over a longer period. It really depends upon what is appropriate for that client, what their program focus is and what benefit they will derive from their approach—there is no right or wrong answer. However, as discussed earlier, the trend is toward greater and more detailed analysis, and this of course means more frequent, and, importantly, ongoing analysis of your lending business and your provider's performance.

Galper: It's a wide range, with some beneficial owners looking at data several times a week and others looking closely only once a year. This is part of the transitioning mindset away from securities lending as a "set it and forget it" activity and towards securities lending as a core part of the investment process.

Nicholson: I think most commonly formal reviews would be on a quarterly basis as part of their risk or credit committee structure. The data will be used to compare utilization and revenue levels, as well as for market and credit risk management. More robust analysis may be undertaken as part of a review or business planning process.

Pridmore: For the most part, beneficial owners don't have the time or inclination to second-guess their lending agent on individual loan decisions. I advise clients to look at the data on a quarterly or semi-annual basis. For some, it is important to understand the outliers, knowing what loans generate the most income and were those loans competitively priced.

DATALEND sees firsthand the ways in which beneficial owners use data to manage their securities lending programs. We echo the sentiment of our expert panelists, who noted the wide spectrum of approaches that different types of beneficial owners take in using data.

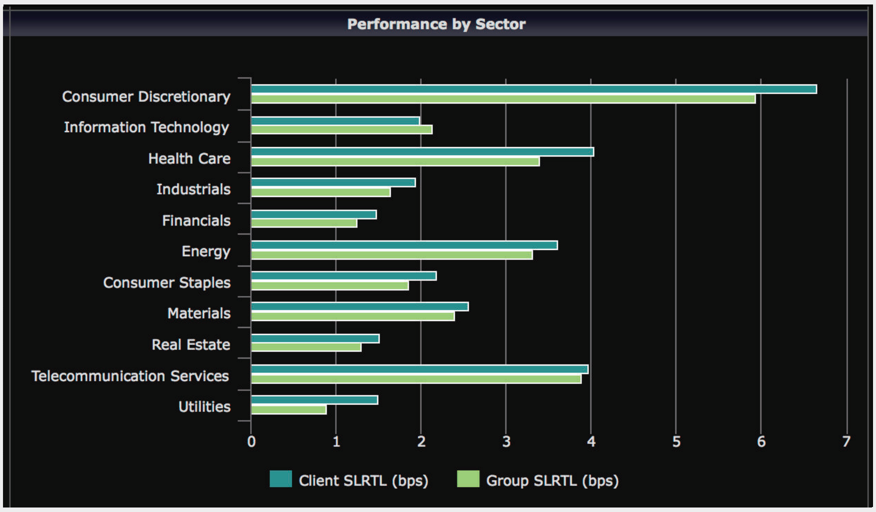
Indeed, some beneficial owners rely solely on their agents for basic quarterly or annual reports outlining earnings and balances. These clients tend to be satisfied with a review of year-over-year performance, perhaps with some industry color provided by the agent to explain changes in revenue, fees and balances.

Other clients take a more direct approach by utilizing our performance measurement tool, DataLend Portfolio, to obtain an aggregated view of their program across multiple agents and to perform industry and peer group analysis weighted to their portfolio holdings. This group tends to be more interested in revenue attribution and is looking to quantify returns relative to risk. The peer group analysis not only measures portfolio performance relative to a like peer group, but it also helps the beneficial owner understand their revenue attribution relative to that of the market.

For example, using DataLend Portfolio, the beneficial owner can identify its top-earning sector as well as understand the drivers of performance (such as fees, utilization, cash reinvestment or others) all relative to the peer group. Cash versus non-cash and term versus open balances are tracked, as well as top performing and underperforming securities and missed opportunities.

Finally, there is another group of beneficial owners who subscribe to DataLend's daily, security-level data feeds. Clients using the data feed conduct their own analytics to identify market trends and opportunities, and, in some cases, will incorporate securities lending data into their portfolio management strategies.

Whether beneficial owners take a light or an intensive approach to their consumption and analysis of securities lending data, the data facilitates more fruitful conversations with agents and assists beneficial owners in making optimal and informed decisions regarding their lending programs.



DataLend's Portfolio tool for beneficial owners

—Nancy Allen, Global Product Owner, DataLend

SHORT MEETS LONG: WHEN SECURITIES LENDING DATA ILLUMINATES MARKET SENTIMENT

BY CHRIS BENEDICT, DIRECTOR, DATALEND

SIGNS of changing market sentiment in the traditional cash markets are easily accessible. Investors enjoy the ability to see security share prices updated in near real time. Changes in analyst recommendations, filings to regulatory agencies, advanced price and volume charting over years' worth of data and breaking news across tens of thousands of securities globally are available on many financial websites, free of charge. Much of this data is typically viewed from a long perspective as investors review price action and market fundamentals to determine if they should invest in a specific security at prevailing prices for a given time horizon.

While the securities finance industry has become considerably more transparent than it was a decade ago with the advent of specialized data providers such as DataLend, the critical metrics that market participants monitor on a daily basis are still relatively unknown outside the institutional marketplace. These metrics offer different information and highlight market sentiment from the short side—offering critical context for long investors such as asset managers, pension funds and other beneficial owners.

One example of securities finance market data reflecting market sentiment in the cash markets was exhibited in the recent U.S. initial public offering of Blue Apron (ticker APRN). Blue Apron is part of a growing market that develops and delivers packaged, high-quality food ingredients and recipes for home meal preparation. Unfortunately, the Blue Apron IPO suffered from awkward timing as Amazon (AMZN) had just announced the acquisition of Whole Foods Market (WFM) for $13.7 billion and separately began testing meal kits of its own.

APRN thus became a victim of the so-called "Amazon effect" as investors immediately saw the threat that Amazon posed to Blue Apron's business. APRN closed at just a penny above its $10 IPO price on its first day of trading and went downhill from there. Indeed, Amazon's announcement to acquire Whole Foods sent a shudder of fear throughout the entire supermarket industry, causing share prices of some stocks in the sector to drop by more than 20% in the days after the news broke.

Metrics reflecting the bearish market sentiment of APRN's prospects were immediately evident days after the IPO settled. Fees to borrow shares of the company hit over 5,000 bps on its first day of trading in the securities finance market and reached a high of over 8,000 bps in August (see Figure 1). Utilization also shot up to just under 100% more recently, suggesting that virtually every share that could possibly be borrowed has been and is now on loan. Re-rating activity has also been very busy in this name and reflects increased demand to borrow shares. Immediately after the APRN IPO, shares were re-rated hotter in 10 out of 15 trading days, sometimes by several hundred basis points. Only four days out of the 15 saw re-rate activity result in slightly cooler volume-weighted average fees. Short interest

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FIGURE 1. APRN: VOLUME-WEIGHTED AVERAGE FEE (NEW LOANS) VERSUS SHARE PRICE

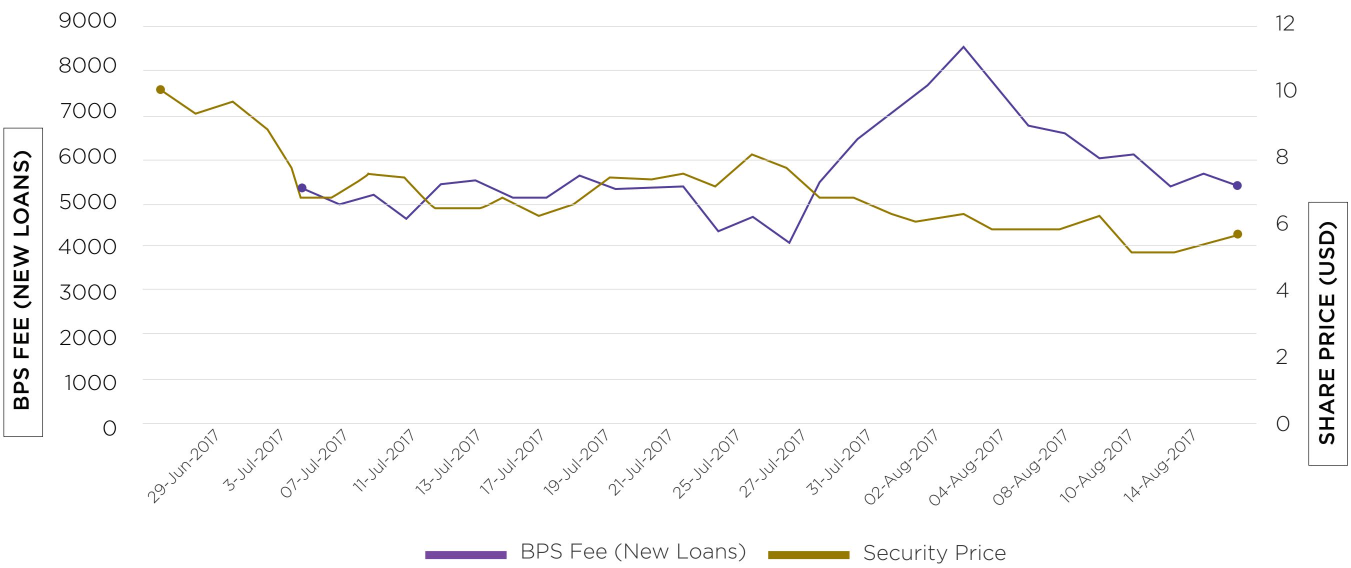


FIGURE 2. APRN: UTILIZATION AND SHORT INTEREST VERSUS SHARE PRICE

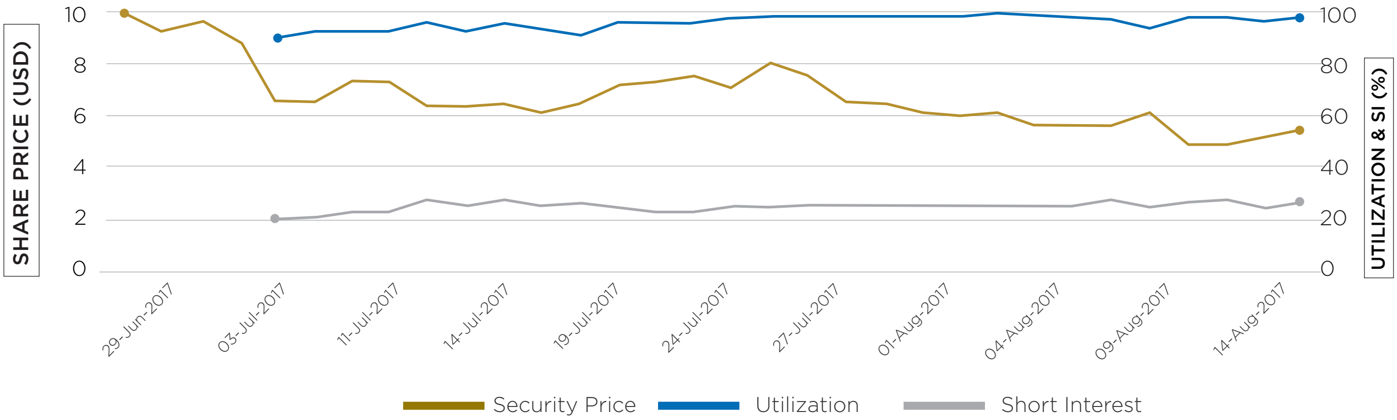


FIGURE 3. NORTH AMERICAN RETAIL INDUSTRY (VOLUME-WEIGHTED AVERAGE FEE, BPS)

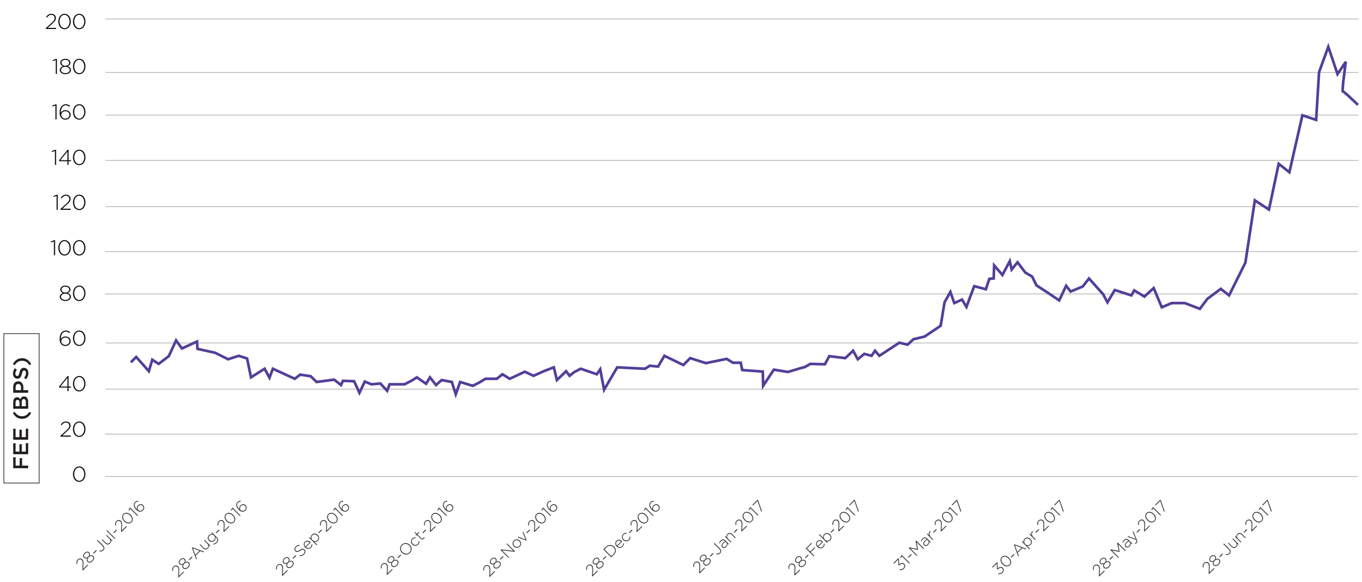


FIGURE 4. CARA: SECURITY PRICE VERSUS DAYS TO COVER

as a percentage of float in the 28% to 30% range also reflects bearish market sentiment in APRN (Figure 2).

With rising fees to borrow, extremely high utilization percentages, hotter re-rates and a high short interest ratio, the securities finance market suggests that long investors in Blue Apron may want to anticipate further downside from its share price of less than $6 as of late summer 2017 as shorts keep the pressure on. In the meantime, however, long holders of Blue Apron may realize revenues from lending those positions while the share price stabilizes.

> In addition to reflecting market sentiment at a security level, utilization, days to cover, short interest and fee metrics can be extrapolated and applied to an industry, sector, asset class, country and even regional level

Broadening the data set

In addition to reflecting market sentiment at a security level, utilization, days to cover, short interest and fee metrics can be extrapolated and applied to an industry, sector, asset class, country and even regional level.

A recent example of applying aggregated securities lending data to observe broader market trends is exhibited in rising fees to borrow securities in the U.S. retail industry. Whether a result of the supposed Amazon effect or not, the share prices, fees, short interest and utilization figures of retailers such as Sears Holdings, Hudson's Bay, J.C. Penny, Land's End, Dillard's Inc., Bon Ton Stores, Fred's Inc., Restoration Hardware, Bebe Stores and many others reflect rising short activity in the retail industry during the first half of 2017 (Figure 3).

The volume-weighted average fee to borrow the U.S. retail industry increased from 80 bps to over 180 bps as of mid-summer 2017. That reflects a bearish market sentiment as short sellers are willing to pay more to borrow shares in traditional U.S. retailers as online vendors such as Amazon gain market share. Short sellers are sticking with their positions and in some cases increasing their short exposures, even as the cost to borrow some retail equities continues to rise.

When securities lending data turns bullish

That is not to say that all securities finance metrics are indicators of just bearish market sentiment. One data point used to gauge the possibility of a short squeeze (a scenario when a heavily shorted security suddenly moves higher as a result of buying activity) is the days-to-cover ratio. The days-to-cover metric is calculated as the number of shares on loan divided by the average daily trading volume of shares in the cash markets over the last 30 days. The ratio attempts to measure how many days would it take to close all the open short positions in a security; the higher the ratio, the longer it could take for shorts to cover their positions, and the longer a price rally could continue. A security trading with a high days-to-cover ratio in conjunction with a high short interest could be a candidate for a short squeeze, given the right catalyst.

One such example of a short squeeze happened in recent months with Cara Therapeutics (CARA), a pharmaceutical company. Cara Therapeutics was trading increasingly hot through spring 2017, with utilization climbing to 96% and fees to borrow in a very wide range between 800 and 9300 basis points. During this timeframe, days to cover rose from 3.2 to peak at 6.75 on June 15. Shortly thereafter, a short squeeze was triggered, ostensibly due to optimism regarding pending results on a Phase 2b trial of a pain medication in development. The stock rocketed up by 57% from $17.12 to reach a high of $26.95 on June 28 as shorts scrambled to cover their shares in the face of sudden buying pressure (Figure 4).

Ironically, the results of Cara Therapeutics' Phase 2b trial were mixed. These results caused analysts to downgrade the stock, leading to an immediate sell-off that erased all share price gains triggered by the short squeeze. Fees and utilization for CARA have climbed back up to very high levels more recently.

Sell high, buy low

Just as rising fees, utilization and short interest can reflect increased shorting activity and bearish market sentiment, these same metrics decreasing can signal the covering of shorts. One such example occurred in Exact Sciences (EXAS), a biotechnology company specializing in cancer detection screening. In August 2016, fees to borrow EXAS were in the warm territory at around 150 bps, while utilization trended around 82%. The share price of Exact Sciences lumbered along in the $13 to $20 range until late February 2017. DataLend data saw more returns coming in than new loans, causing utilization to drop from a high of 90% to 69% by April. Fees to borrow the security dipped below 50 bps, while the days-to-cover ratio rose to 11. A short squeeze was triggered by better-than-expected earnings reported on April 26, causing the share price to rally from $23.80 to $30.14 in a single day.

Utilization and fees in EXAS continued to drop as the share price strengthened. Fees to borrow shares of the company fell to around 22 bps by late summer; short interest and utilization have also dropped down to 9.5% and 40%, respectively, in the same timeframe. Shares of EXAS traded in the $37 range in August, a 184% increase from the stock's lows in early January. This example illustrates that securities lending data can be used from the long side as well: By combining technical analysis in the cash markets with securities lending metrics, observant investors may infer when the short sellers are covering their positions, allowing them to set up a trade from a long perspective.

It's all in the details

Securities finance metrics are just as valuable to gauge market sentiment as the more traditional figures most financial services professionals are familiar with. Combining utilization and fee figures with days to cover, short interest, on-loan volumes, re-rating activity and other metrics can make for a compelling and more complete view of what is happening with a security, industry or asset class in both the securities lending and cash markets. ▲

EXPERT TIP:
DataLend's Security Search and Macro Analyzer screens can help traders, quantitative analysts, portfolio managers, beneficial owners and other securities finance participants to see current and historic securities lending metrics at the security, industry, sector, asset class, country and regional levels, reflecting a complete picture of market trends and sentiment.

LENDING ETFS

The robust ETF lending market in the U.S. eclipses a nascent market in EMEA and Asia. DataLend examines the global ETF landscape

BY JAMES PALMER, PRODUCT SPECIALIST, DATALEND

EXCHANGE-TRADED FUNDS (ETFs) have seen a marked increase in popularity and a rapid acceleration in asset growth in recent years. ETFs offer a low-cost alternative to actively managed mutual funds, which, in the current low-yield and cost-focused environment, has proven to be very attractive for investors. Yet their place in the securities lending market has not reflected this mass adoption.

"The ETF industry has continued to confound its critics, and it is therefore unsurprising that more and more issuers are coming to market, driving further asset growth," says Andrew Jamieson, founder of Warriston Place Advisors, a specialist ETF and securities finance consultancy. "With this in mind, it is only a matter of time before it becomes a fully fledged component of the global securities finance industry."

The lending of ETFs can significantly offset the cost of holding the product for beneficial owners while providing borrowers with a diversified index exposure in a convenient, single security wrapper. In August 2017, according to DataLend data, $38 billion of ETF assets were on loan globally, representing a utilization of 20% of all assets in the lendable pool. This represents a significant outperformance compared to common shares, which are 8% utilized on average, suggesting strong demand to borrow ETFs.

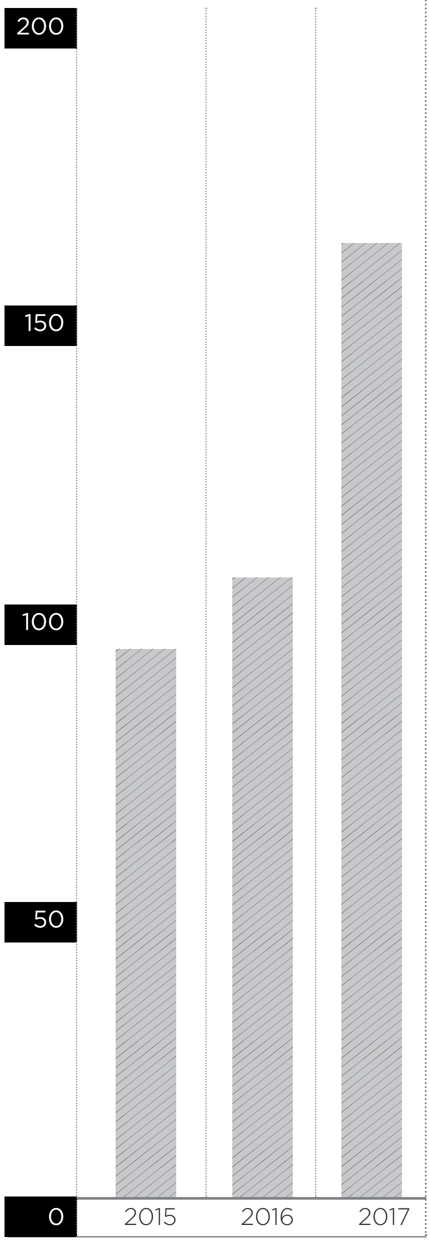
The top-five revenue-generating ETFs in the securities lending market in the first half of 2017 (see below) show some of the key drivers of borrower demand:

- High-yield bond ETFs (HYG and JNK) provide an effective macro hedge for rising interest rates in the U.S.
- ETFs that track emerging markets (EEM) allow borrowers to gain exposure to otherwise illiquid or inaccessible markets
- Main index tracking ETFs (SPY and IWM) provide efficient and low-cost access to the index without the need to borrow each of the index constituents, reducing execution costs

Looking at the top earners also uncovers a regional disparity in the maturity of the ETF lending market, with 45 of the top 50 listed on U.S. exchanges. North American ETFs were significantly more utilized (23% versus 9%) and traded at lower fees to borrow (51 bps versus 127 bps) than the European equivalents in the first half of 2017. Asian ETFs have a higher 31% utilization rate than both European and North American ETFs, and they traded significantly higher at 197 bps on average. That trend suggests a less-developed lending market in the region more akin to the European market than North American one.

Digging deeper, DataLend examined the relative cost to borrow ETFs that represent an equity index versus the fees to borrow the underlying index members for the U.S. and the rest of the world. The fee to borrow the SPDR S&P 500 ETF (SPY), one of the most liquid securities across all product types, stood at a very low 13 bps in August 2017, matched by the

ETF LENDABLE VALUE (BILLIONS USD)



TOP-EARNING ETFs IN THE GLOBAL SECURITIES LENDING MARKET

TICKER	DESCRIPTION	EXCHANGE COUNTRY	H1 2017 REVENUE ($)	VWAF (BPS)
HYG	ISHARES TRUST IBOXX USD HI YLD	US	16,665,922	132
IWM	ISHARES TRUST RUSSEL 2000 ETF	US	4,137,556	25
EEM	ISHARES TRUST MSCI EMERGING MARKETS ETF	US	3,672,006	33
SPY	SPDR S&P 500 ETF TRUST	US	2,517,075	10
JNK	SPDR BARCLAYS HIGH YIELD	US	2,395,730	47

similarly low weighted fee to borrow the underlying constituents of the S&P 500 of 18 bps. Conversely, the iShares FTSE 100 ETF (ISF) commands a fee of 127 bps to borrow versus a weighted average fee of just 24 bps to borrow the FTSE 100 index constituents. This highlights the disparity between the U.S. and European markets; in Europe, the main index-tracking ETF commands a premium over the index, while in the U.S. a similar main index-tracking ETF is actually priced at a discount.

Why is there such a disparity between the ETF lending market in the U.S. versus the rest of the world? Liquidity and perceived access to liquidity are central to the differences in the supply of ETFs within securities lending programs and to hedge fund demand. The U.S. lending market, with a single central securities depositary (CSD), currency, common tax and regulatory framework, affords a much more vanilla environment with a clear picture of ETF availability. Conversely, when looking at the European landscape, each of these factors has implications on the ability to source ETFs. Europe and Asia's disparate regulatory landscapes and more punitive buy-in regimes also have forced ETF market-makers to borrow "at any rate" to prevent fines, driving up fees to borrow ETFs and creating unachievable benchmark rates. The infrastructure across jurisdictions, across CSDs and across exchanges inhibits the access to a centralized liquidity pool and the benefits of the fungible nature of the instrument. Efforts by industry-leading ETF issuers to drive a standardized settlement regime have helped matters, but the markets still do not match the simplicity of the U.S. ETF market. In an industry that is striving to increase automation with the help of tools such as EquiLend's NGT, standardization is the key to an efficient market.

It is difficult, however, to attribute the growth of global ETF lending to a growing maturity of the ETF lending market and the participants using them, rather than merely the growth of the underlying assets. The lendable value of ETFs has increased significantly, with 50% year-on-year growth. DataLend's Client Performance Reporting suite shows an approximate 21% increase in the number of underlying beneficial owner accounts showing ETFs in their inventory files this year versus 2016. This would suggest that the lendable base is both increasing in size and depth as more lenders enter the market.

The ETF lending market has grown considerably in recent years. However, various technological, educational and regulatory hurdles have stunted the growth of this component of the securities lending market. Further regulatory improvements for the treatment of ETFs in terms of capital treatment and funding combined with greater flexibility around the acceptance of ETFs as collateral will act to improve liquidity and promote the product. Given the sizeable global increases in AuM, the revenue potential from ETFs in the securities finance industry has become too big to ignore.

EMERGING MARKET DEBT

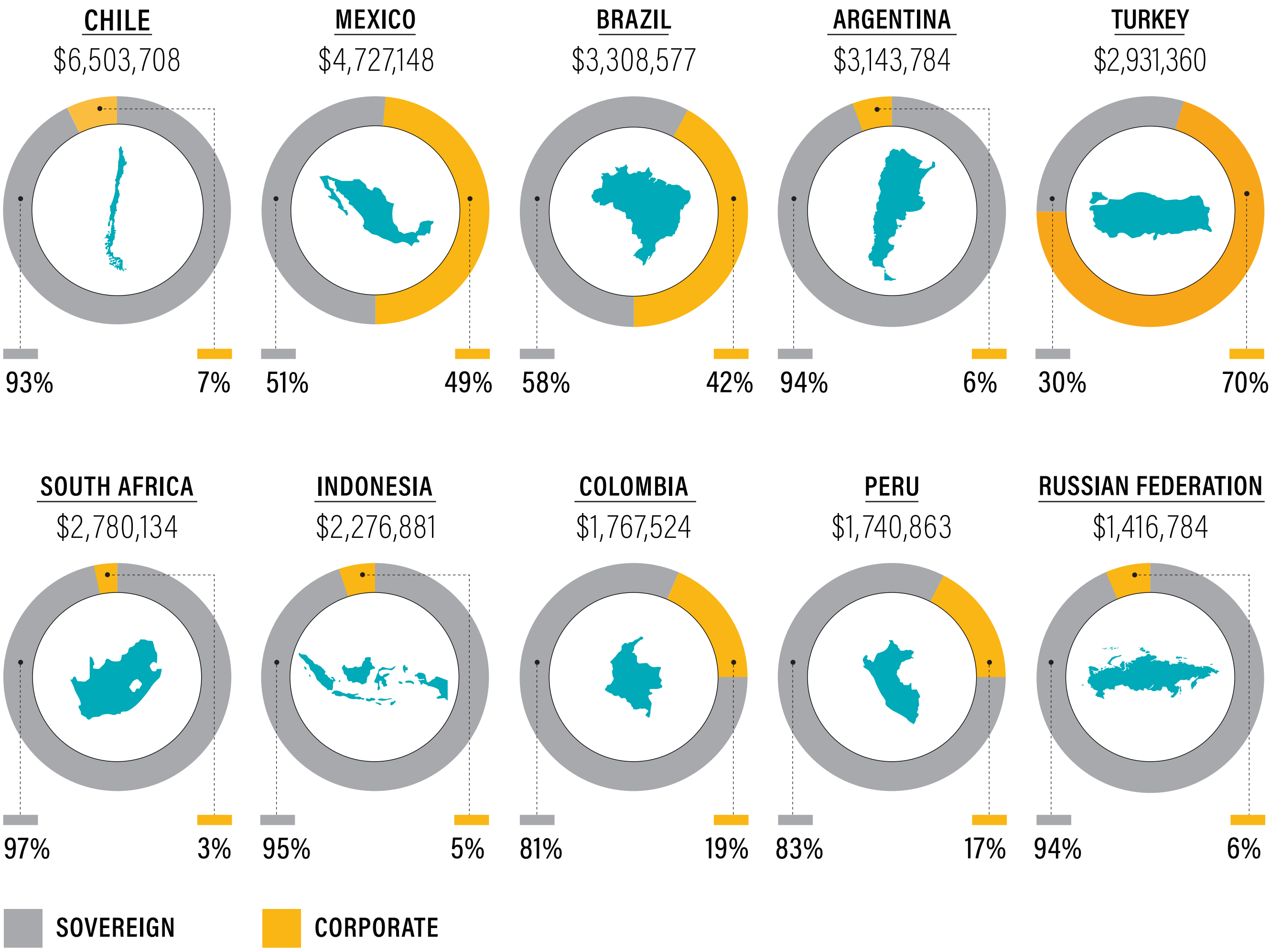
AVERAGE LENDABLE	AVERAGE ON LOAN
$227 BILLION	$18 BILLION

TOTAL REVENUE $43 MILLION

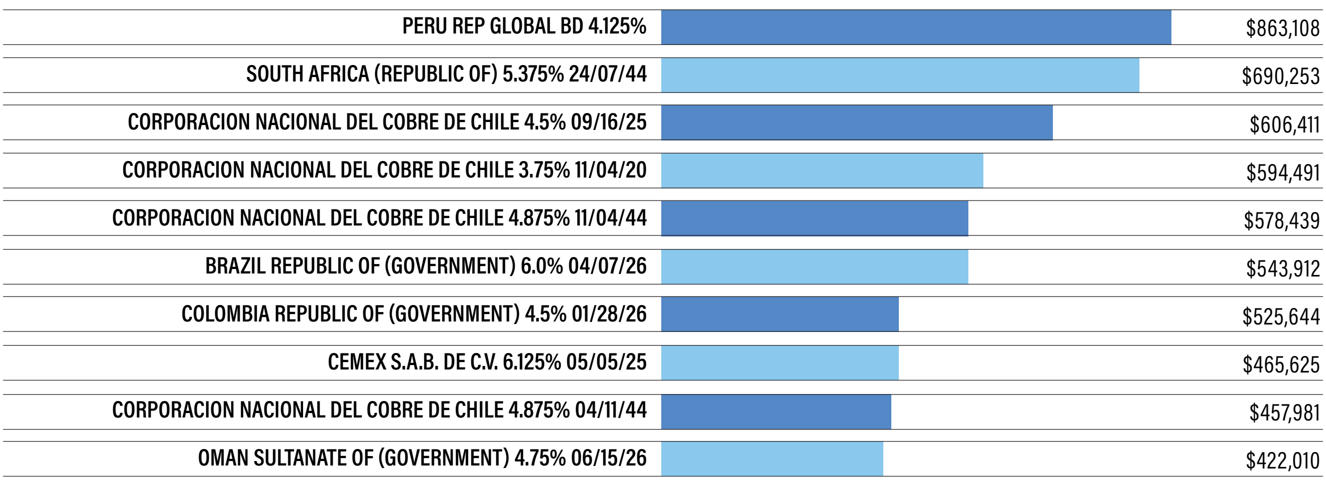
SOVEREIGN	CORPORATE
72%	28%
$31 Million	$12 Million

TOP 10 COUNTRIES BY FIXED INCOME REVENUE (MILLIONS USD)

SOVEREIGNS VS. CORPORATES, JANUARY 1 TO JUNE 30, 2017

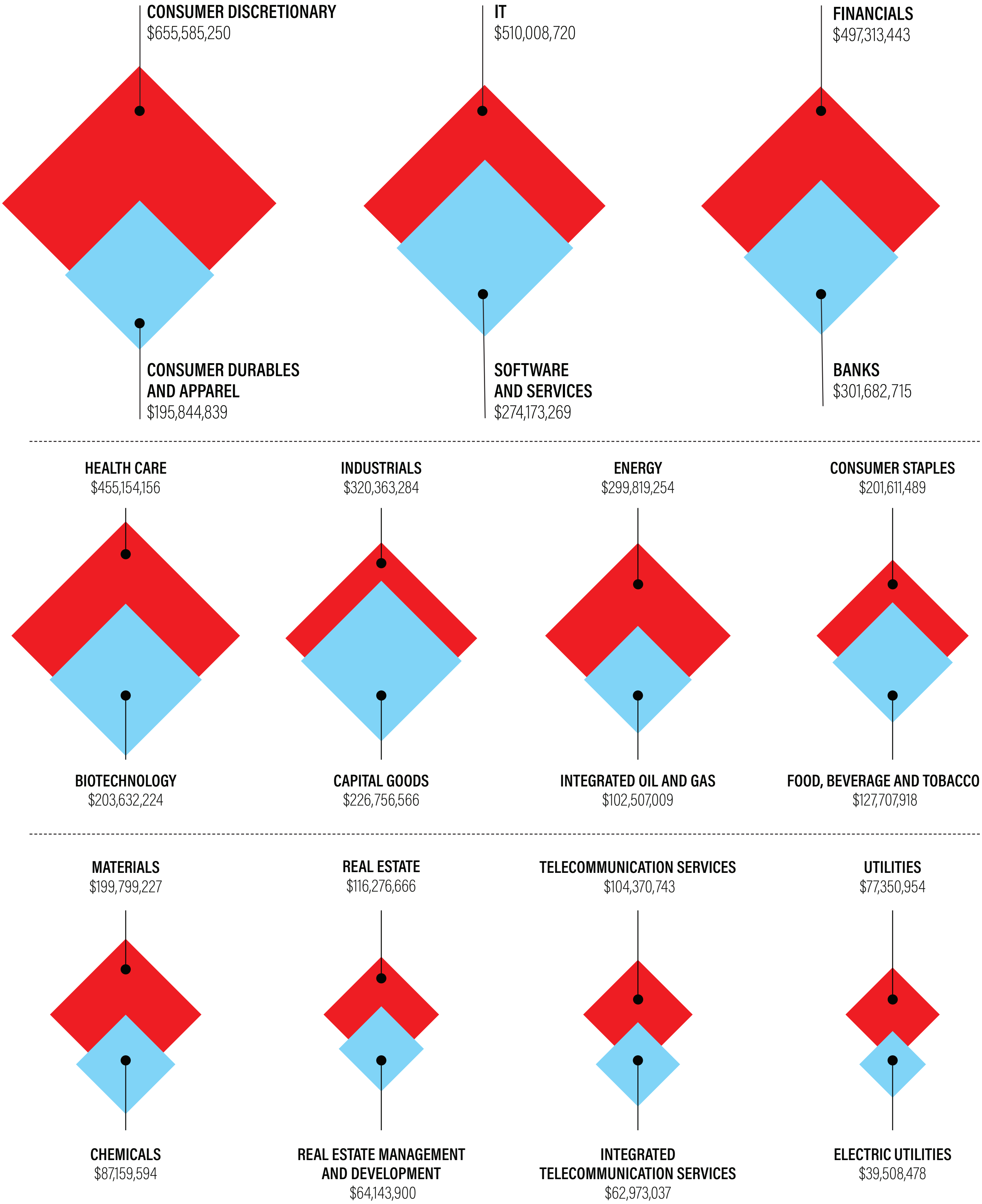


MOST PROFITABLE EMERGING MARKET FIXED INCOME SECURITIES, H1 2017



ALL FIGURES REPRESENT TOTAL LENDER-TO-BROKER ACTIVITY FROM JANUARY 1 TO JUNE 30, 2017

REVENUE BY **SECTOR** & INDUSTRY



SFTR

INTEROPERABILITY DEFINED

EquiLend and Trax offer all you need for SFTR—comprehensive point of trade ***and*** lifecycle reporting from trusted, regulated service providers.

EQUILEND
OUR INNOVATION. YOUR ADVANTAGE.

&

TRAX®
A MarketAxess Company

SFTR

OPPORTUNITIES AND CHALLENGES

WHILE SFTR PRESENTS CHALLENGES FOR LENDERS, THE REGULATION ALSO RAISES AN OPPORTUNITY TO REFORM, AND STREAMLINE, GLOBAL TRADING MODELS

By Mark Byrne, SFTR Product Specialist, EquiLend &
Nancy Allen, Global Product Owner, DataLend

THE Securities Finance Transaction Regulation (SFTR) forms part of the EU's response to the policy proposals issued by the Financial Stability Board (FSB) in August 2013. It aims to reduce risks by improving transparency in securities financing markets and seeks to impose a series of conditions and rules. Counterparties will be required to report details on trades and collateral to a registered trade repository (TR).

The European Securities and Markets Authority (ESMA) issued its final report on the technical standards for SFTR on March 31, 2017. The report details a total of 153 reportable fields covering securities lending, repo, buy/sell-back and margin lending. ESMA has identified 96 fields that will be required to match (with limited tolerance) but has chosen a "phased" approach for the implementation of this matching process; 62 fields will be required to match at the beginning of the process, with a further 34 required to match beginning 33 months later. All data must be reported in a standard ISO 20022 format to a TR, with trade information required on T+1 and reporting of the associated collateral on S+1.

The reporting requirement is dual-sided and requires the provision of a unique transaction identifier (UTI) for each trade and a legal entity identifier (LEI) for each of the counterparts in the trade. Market participants also will be required to report a comprehensive series of trade details throughout the lifecycle of the trade, including changes to market price and loan value as well as corporate actions out-turns.

The regulation requires counterparties to submit reports detailing counterparty data and full loan and collateral activity. It also mandates the reporting of margin information for transactions novated to a CCP and a daily report on collateral reuse.

The main challenge for market participants will revolve around the volume, content and timing of the reporting requirements as well as the stringency of the matching requirements. The current standard of data submission across the market will not be sufficient to meet the requirements of SFTR. EquiLend has focused on engaging with market participants to determine the market's ability and appetite to contribute the required data in a timely and reliable manner.

The foundation of a robust solution for SFTR is a clearly defined UTI generation process; experiences with previous reporting regimes have highlighted the chaos that can ensue when this is not achieved. EquiLend has devoted resources and drawn on its experiences over the past 16 years as market leaders in the securities finance industry to ensure this process is not repeated. The UTI will be vital, not only for trade booking and allocation but also for reporting of collateral and lifecycle events.

While the responsibility to report is on the beneficial owner, the burden of information provision likely rests with agent lenders, who will need to provide transparency as to the identity of their underlying clients (utilizing ISO 17442 LEI), either at or shortly after "point of trade." EquiLend will leverage its unique positon to assist market participants in this process, utilizing existing pipes and functionality within NGT to accept the break-out and allocation of "block" trades to a principal level.

Additionally, EquiLend will employ existing connectivity to lenders and tri-party agents to facilitate the provision of appropriately granular data for collateral allocations on an S+1 basis.

Beneficial owners will need to reconcile themselves to the fact that their identities and activities will be more transparent than ever before. Again, utilizing existing functionality, EquiLend will seek to assist those concerned by maintaining a mapping set, which will allow us to anonymize the data when providing it to trading desks while maintaining visibility for credit and operations purposes.

Many brokers see the increased visibility afforded by SFTR as an opportunity to introduce changes to the trading model. EquiLend is in conversations with a broad range of market participants to ensure features in NGT are able to support this differentiated trading model, which factors in risk-weighted asset calculations into trading decisions.

By collaborating with Trax, and focusing on each entity's strengths, EquiLend and Trax can offer a modular SFTR solution: We will offer assistance to our clients with as much or as little of the SFTR process as they require. Clients that have existing regulatory reporting engines may opt to receive matched transaction data and handle the rest of the process themselves. Others may need EquiLend to match and enrich the transaction data and transmit it to a TR for them. Still others may need a combination of the two approaches.

While the implementation of SFTR will certainly be onerous for the lending community, the data that it will unlock will bring significant returns to all market participants. The market will benefit from a granular data set, available in a timelier manner, which will enable participants to more efficiently manage their portfolios and collateral. DataLend will provide clients with the tools to perform more intelligent revenue attribution analysis, point-of-trade pricing, ongoing rate monitoring and capital-cost analysis.

At the core of SFTR is attribution and data standardization; from a performance and pricing perspective, the data unlocked by SFTR will allow for more detailed revenue-attribution analysis. Agent lenders and beneficial owners will be able to dissect their portfolios to identify returns generated from term loans, different non-cash collateral types, varying margin levels or a combination of all three. This analysis will empower beneficial owners to make even more informed decisions around their program parameters and will provide agent lenders with the data they need to support their recommendations to their clients.

As regulators and the market move toward greater transparency, the need to demonstrate best execution has followed. The difficulty in proving best execution has been that the loan rate or fee is not solely driven by the intrinsic value of the security. Instead, collateral type, term, margin, counterparty and underlying client type are also considerations when pricing a loan. At DataLend, clients use DataLend's Market Variance Research Report to mark trades to the industry. However, the industry averages include trades with varying parameters. In the future, DataLend will provide collateral- and term-based pricing, providing greater transparency to the end-user.

Finally, efficient capital management has become more important than ever for both lenders and borrowers. The enhanced analytics DataLend will create on the back of the SFTR transparency mandate will help facilitate the capital management process as market participants determine the most economical and efficient allocation of balances and resources.

EquiLend looks forward to providing a robust SFTR solution, complemented by enhanced DataLend analytics, designed to empower market participants to make more informed decisions around risk, trade and resource allocation. ▲

HOW SPECIAL ARE SPECIALS IN SECURITIES LENDING?

BY MATTHEW ROSS, PRODUCT SPECIALIST, DATALEND

FIGURE 1. H1 2016 ON-LOAN VALUE BY FEE BAND

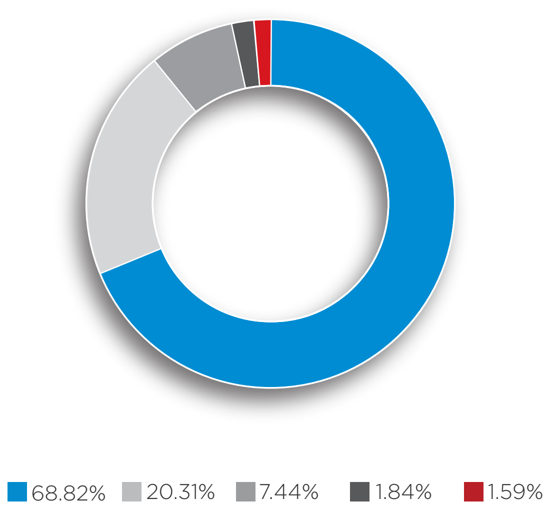


FIGURE 2. H1 2016 REVENUE BY FEE BAND

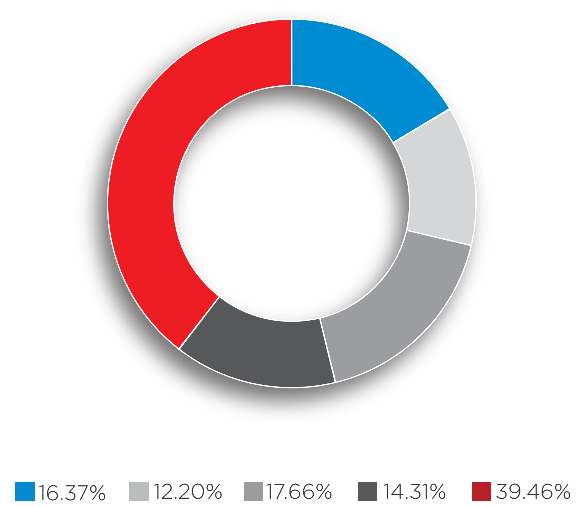


FIGURE 3. H1 2017 ON-LOAN VALUE BY FEE BAND

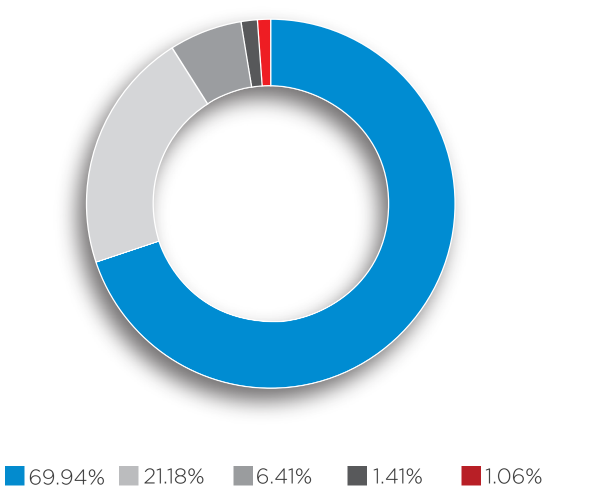
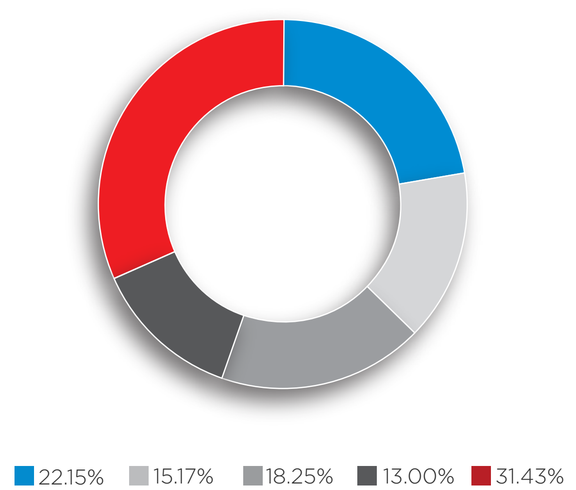


FIGURE 4. H1 2017 REVENUE BY FEE BAND



GC - 0 TO 20 BPS | BARELY WARM - 20 TO 50 BPS | WARM - 50 TO 250 BPS | VERY WARM - 250 TO 500 BPS | HOT - GREATER THAN 500 BPS

HARD-TO-BORROW securities, also known as specials, make up a considerable percentage of the securities lending market's revenue, but the 2017 global equity market rally has had a negative impact on the specials market thus also reducing lending revenue. DataLend investigated how the reduction of specials in the market has impacted global revenues over the past 18 months.

DataLend reviewed the fees to borrow for each security in the lending universe across every day over this time period and bucketed them into one of five fee bands. For the purpose of this analysis only lender-to-broker transactions were included while ignoring those that may have been due to seasonal corporate events activity. Given the $1.8 trillion in assets on loan over the course of H1 2016 (Figure 1), almost 90% of the daily on-loan balance falls within the GC and Barely Warm fee bands. However, when examining the distribution of the roughly $4 billion in lending revenue generated in that period, more than 53%, or about $2.1 billion, was generated by the Very Warm and Hot buckets.

The distribution of on-loan balances by fee buckets in H1 2017 (Figure 3) are fairly similar to 2016, with just over 90% of the total balance falling into the GC and Barely Warm categories. Yet there is a sizable shift in revenues in H1 2017 across the five fee bands (Figure 4). The most noticeable change comes from the Hot category, where securities trading at more than 500 bps earned $1.17 billion in revenue (31% of total revenue) in 2017 versus $1.56 billion (about 40% of total revenue) in 2016—a decrease of almost $400 million, or about 25%.

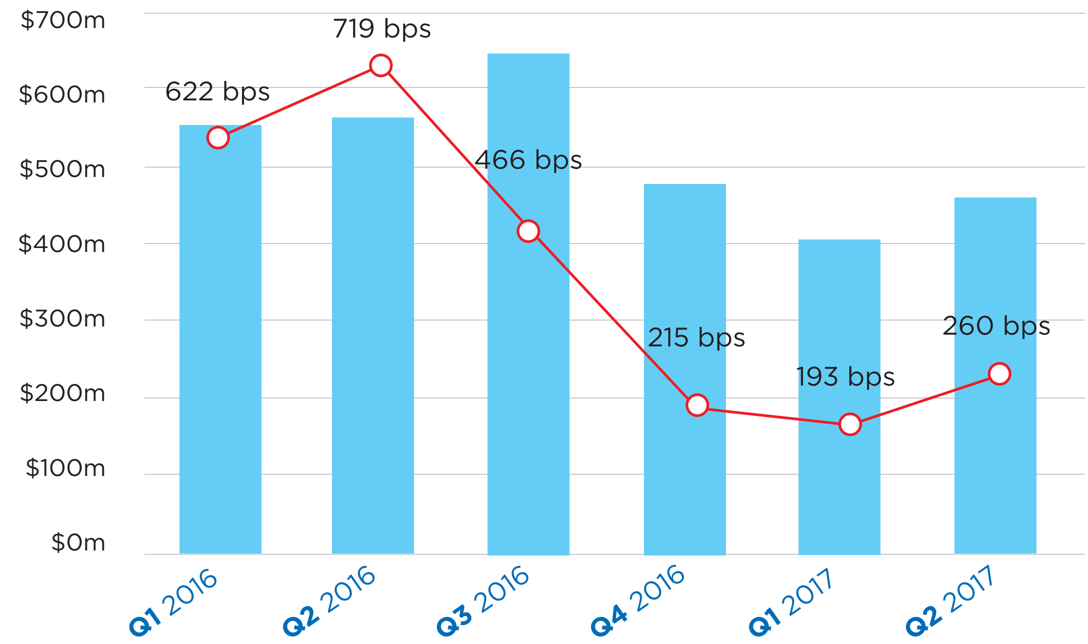
OVERALL market sentiment remained largely bullish in 2017, while the securities lending industry continued to cool. With less of an appetite for large short positions in a bull market the demand to borrow securities declines, and with less demand to borrow securities comes a reduction in price. To illustrate this, DataLend examined the total revenue generated by and the average fees for the top 50 revenue-earning securities globally dating back to the beginning of 2016 on a quarterly basis. Not only does the resulting chart (Figure 5) show a pronounced drop in revenue, but it clearly illustrates that the cost to borrow the hottest securities in the industry has fallen dramatically as well.

In looking at Figure 5 perhaps the most telling comparison that typifies the reduction in demand to borrow securities is the drop in average fees in Q1 2016 compared to Q1 2017. From January to March 2016, the top 50 names earned almost $560 million in revenue, with staggering average fees of 622 bps; over the same three-month period in 2017, revenue barely topped the $400 million mark, and fees dropped by more than 400 bps to just 193 bps.

The trend is not isolated to one region either, with the drop in specials trend evident across the globe. In the first six months of 2016, multiple names in each region saw fees consistently in the thousands of basis points. While there are some new hot names in 2017, the top earner in each region (the Americas, Europe and Asia) for H1 2016 remained the top earner for H1 2017. Furthermore, each name saw a significant drop in the revenue generated in each six month period, with Tesla's revenue dropping from $110 million to $55.4 million in the Americas, Fingerprint Cards from $62 million to $18.4 million in Europe and Celltrion from $76 million to $25.5 million in Asia in 2017.

As global markets continue the bullish trend, specials revenue in the securities lending market will likely remain sluggish. However, a revival of specials could be on the horizon, with many hot names popping up within the Consumer Discretionary sector in particular—namely RH and JCP, as noted in "Short Meets Long" on page 8. DataLend will keep close watch on specials trading to see if hard-to-borrow securities make a comeback in the second half of 2017.

FIGURE 5. GLOBAL TOP 50 HIGHEST EARNERS: REVENUE (USD) & FEE (BPS)



SECURITIES FINANCE AROUND THE GLOBE

AMERICAS

REVENUE: $2,315,762,330

AVERAGE FEE: 35.65 BPS


EMEA
REVENUE: $1,464,390,617
AVERAGE FEE: 55.00 BPS
ASIA PACIFIC
(INCLUDING JAPAN)
REVENUE: $772,919,611
AVERAGE FEE: 95.16 BPS

REGION FOCUS: AMERICAS

ON-LOAN and inventory balances for North and South America grew in the first half of 2017, buoyed by continued strong performance in the cash markets. The average lendable inventory of $10.38 trillion and average on-loan balance of $1.32 trillion produced a 12.7% utilization for the two regions; average fees across the Americas were 35.6 bps, with a total of $2.32 billion in lender-to-broker revenue generated in the half-year. Equities were responsible for almost $1.7 billion in revenue, while fixed income generated $618.6 million in revenue for the first two quarters of 2017.

This $2.32 billion in revenue for the Americans in the first half of 2017 represents a 5.3% decrease from the $2.45 billion realized during the first half of 2016. Not surprisingly, the United States contributed the lion's share of revenue in the region—$1.99 billion—with an average fee of 34.7 bps in the first two quarters of the year. Canada came in second with $267.5 million in revenue and an average fee of almost 40 bps. The South America region generated the balance of $56.8 million in revenue from fees averaging 71.62 bps in the period.

The Consumer Discretionary sector has been the most profitable this year in the Americas, grossing $392.8 million in revenue from volume-weighted average fees of 77 bps during the first half, despite representing a 6.7% decrease from H1 2016's $421 million in revenue. The U.S. contributed $378 million to the sector's overall revenue. Tesla was once again the top revenue-generating security in this sector (and in the U.S. market as a whole), grossing $55.4 million, although down substantially from the $110 million it generated during the same time last year. GoPro was another familiar name in the first half of 2017, producing $38.6 million in revenue for agent lenders. Other in-demand companies such as Under Armour, Sears Holdings, Sirius XM Holdings and Restoration Hardware all helped to drive profitability in the Consumer Discretionary sector so far this year.

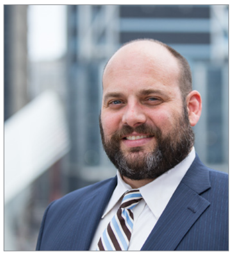
In the fixed income lending market, U.S. Treasuries grossed $394.4 million worth of revenue from fees averaging 15.43 bps for the first half of 2017. This represents a nearly twofold increase in revenue from the $199.6 million for the same period last year. Canadian sovereigns followed this trend, with lending revenue increasing from $11.48 million in the first half of 2016 to $27.4 million this year. Rises in on-loan balances and fees to borrow U.S. and Canadian sovereign debt was in line with global trends, caused by demand to borrow high-quality liquid assets (HQLAs) due to regulatory pressures.

Canadian equities grossed $218.8 million in the lending market for the first half of 2017. While the Canadian healthcare sector wasn't the most profitable in the country, it was amongst the hottest, commanding an average fee of 486 bps for the period. The nascent medical marijuana industry helped to heat up the Canadian healthcare industry—one example is Canopy Growth, which was trading at very hot average fees to produce a little over $5 million in revenue in H1 2017.

Canada's overall lending revenue has increased to $267.5 million on fees of almost 40 bps during the first half of 2017, an 8.7% increase from the $246 million grossed during the same period in 2016. Equity lending was responsible for $218.8 million of the total, while fixed income contributed the balance of $48.7 million. The Canadian financials sector was responsible for $88.8 million in revenue for the first half of 2017. Home Capital, the most profitable name in the Canadian lending market, contributed $30.17 million to the total. The Canadian Energy sector came in as the second most profitable for H1 2017 with $40.7 million in revenue. Enbridge Inc. was the number-two name, yielding $14.9 million.

Elsewhere across the region, the asset class mix is quite different. Brazil and Mexico are the largest equities markets in the region, while other regional markets are more dependent upon fixed income lending for revenue. Brazil generated $14.7 million in revenue on volume-weighted average fees of 120 bps with an overall utilization of 16.5% for the first half of 2017; Brazilian equities were responsible for $11.5 million of the total revenue. By contrast to Brazil, Mexico was a fairly cool market with fees averaging around 38 bps combined with a low 5.6% utilization to generate $7.2 million in revenue during the same timeframe. Chile was another warm market in South America for the first half of 2017, with fees averaging around 115 bps to gross $6.5 million in fixed income lending revenue for the region. Although a much smaller market, Venezuela also contributed $1.75 million to South America's total revenue on fees averaging 146 bps to borrow various sovereign and state debt during a period of increasing unrest there.

PRODUCT SPECIALISTS



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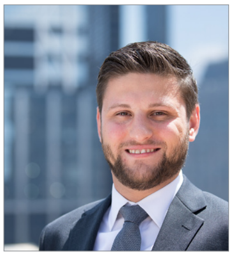

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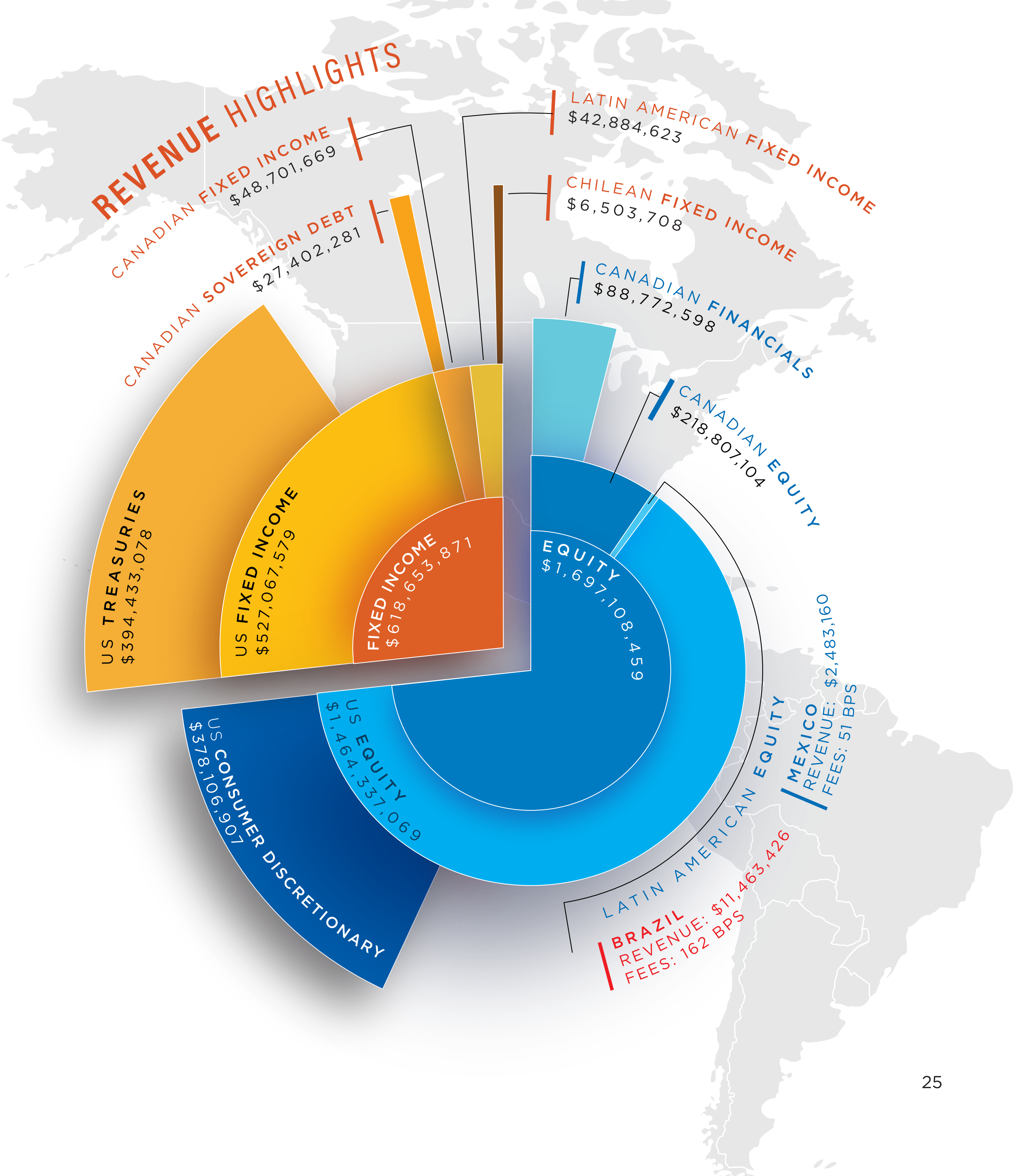
AMERICAS

LENDABLE $10.38 TRILLION | **ON LOAN: $1.32** TRILLION | **REVENUE $2.32** BIILLION



REGION FOCUS: EMEA

THE EMEA region saw a decrease in overall securities lending revenue in the first half of 2017 compared to the same period in 2016, which was in line with global trends in the industry. While a year-over-year weakness in equity fees was observed for most of the region, the demand for high-quality liquid assets (HQLAs) combined with the European Central Bank's quantitative easing helped to bolster fees and revenue for EMEA sovereign debt.

Select markets within the region ran contrary to the trend of overall revenue downturn. In Germany, a 12% increase in revenue from $191.3 million to $214 million was driven by a significant rise in Bund demand; German sovereign debt on-loan balances rose from $76 billion in the first half of 2016 to $91 billion in the same period in 2017, while utilization rose from 50 to 54%. Fees to borrow German Bunds also increased by 40% during the timeframe, from 14.79 bps to 20.83 bps, generating $93.8 million in revenue.

Increased demand for sovereign debt was evident across almost the entire region, with average fees to borrow European sovereign debt up from 15 bps to 18 bps and average on-loan balances up from $241 billion to $289 billion year over year. The increase in fees and loan balances helped to return $259 million in gross revenue for the first half of 2017 compared to $191 million during the same period last year as firms sought to boost their HQLA holdings to meet regulatory requirements.

An 11% year-over-year total revenue increase in Italy was driven by an upsurge in borrowing activity for Italian sovereign debt. Sovereign debt revenue rose from $3.4 million in the first half of 2016 to $16.6 million during the same period this year off the back of elevated loan balances of $22.5 billion, way above the $7.2 billion observed for the same period in 2016. Fees were also up from 9.56 bps to 14.93 bps, and utilization rose from 13% to 25%. Increased demand for Italian sovereign debt appears to be caused by the European Central Bank's quantitative easing operations leading to a scarcity of supply in European sovereign debt.

France saw a slight increase in revenue from the $363.7 million realized in the first half of 2016 to $369 million for the same timeframe this year, making it by far the most profitable country in the region. While revenues for lending French equities were off by $12 million, revenues from lending French sovereign debt made up for the shortfall. Volume-weighted average fees to borrow French sovereigns rose from 15.6 bps to almost 18 bps year over year. Utilization also increased slightly during this time, from 42% to 44%. This helped lenders of French sovereigns realize $51.35 million in revenue for the first half of this year, up 42% from $36.2 million from the same period in 2016. Similar to trends observed elsewhere in Europe, the demand for HQLAs combined with European Central Bank operations have created increased demand to borrow French sovereigns.

On the flipside, there were notable decreases in lending revenue in other areas of Europe, particularly from the Nordics and the United Kingdom. The Nordic equity markets were hit hard by a cooling of some previously very hot names. In Denmark, year-over-year revenue dropped by 62% from the $32.4 million realized in the first half of 2016 to just $12.26 in the first half of 2017. While on-loan balances were slightly up, fees to borrow equities were down substantially from their 2016 levels of 131 bps to only 43 bps for the same timeframe in 2017. Top-earning pharmaceuticals company Novo Nordisk saw a year-on-year drop in revenues from $7.9 million in H1 2016 to $1.5 million in 2017, as average fees dropped by 80%.

Sweden fared little better with revenues dropping by 41% year over year to $158 million for the first half of 2017. Although on-loan balances remained virtually static at $17 billion, equity fees dropped significantly lower in the first half of 2017 from 364 bps a year earlier to 219 bps. Information Technology biometrics firm Fingerprint Cards' fees to borrow declined by more than 50% from the first half of 2016 to the same timeframe this year. That fee decline resulted in Fingerprint Cards' revenues falling from $61.9 million during the first half of 2016 to just $18.4 million in 2017.

Similarly, Finland and Norway saw 33% and 30% reductions in lending revenue, respectively; both countries exhibited a similar trend of slightly reduced loan balances and a drop in equities fee averages of more than 50 bps. A prime example is Finnish Telecommunication firm Nokia, whose fees dropped by 14% year over year.

In the U.K., equity loan balances hovered around $40 billion, while fees dropped from 64 bps in the first half of 2016 to 49 bps in the same period this year to yield $104.5 million in lending revenue. U.K. fixed income ran contrary to global trends as the on-loan balances actually dropped from $72 billion to $68 billion; fees also dropped slightly from 19 bps to 18.2 bps. The decrease in on-loan balances is a result of the significant drop in the value of Sterling post-Brexit, impacted by continued uncertainty as the U.K. haggles over political and economic terms. Downturns in both equities and fixed income resulted in an overall 22% year-over-year downturn in revenue for the U.K. from $214 million to $166 million.

The EMEA region remains a diverse and profitable marketplace for securities lenders. Across the region, there is a general upward trend of total lendable balances buoyed by continued strength in the cash markets. While EMEA lendable balances increased from $3.7 trillion to $4.7 trillion from August 2016 to August 2017, the overall regional utilization has remained steady between 13-14%; revenue generated in the region totalled $1.5 billion in H1 2017 compared to $1.7 billion in H1 2016.

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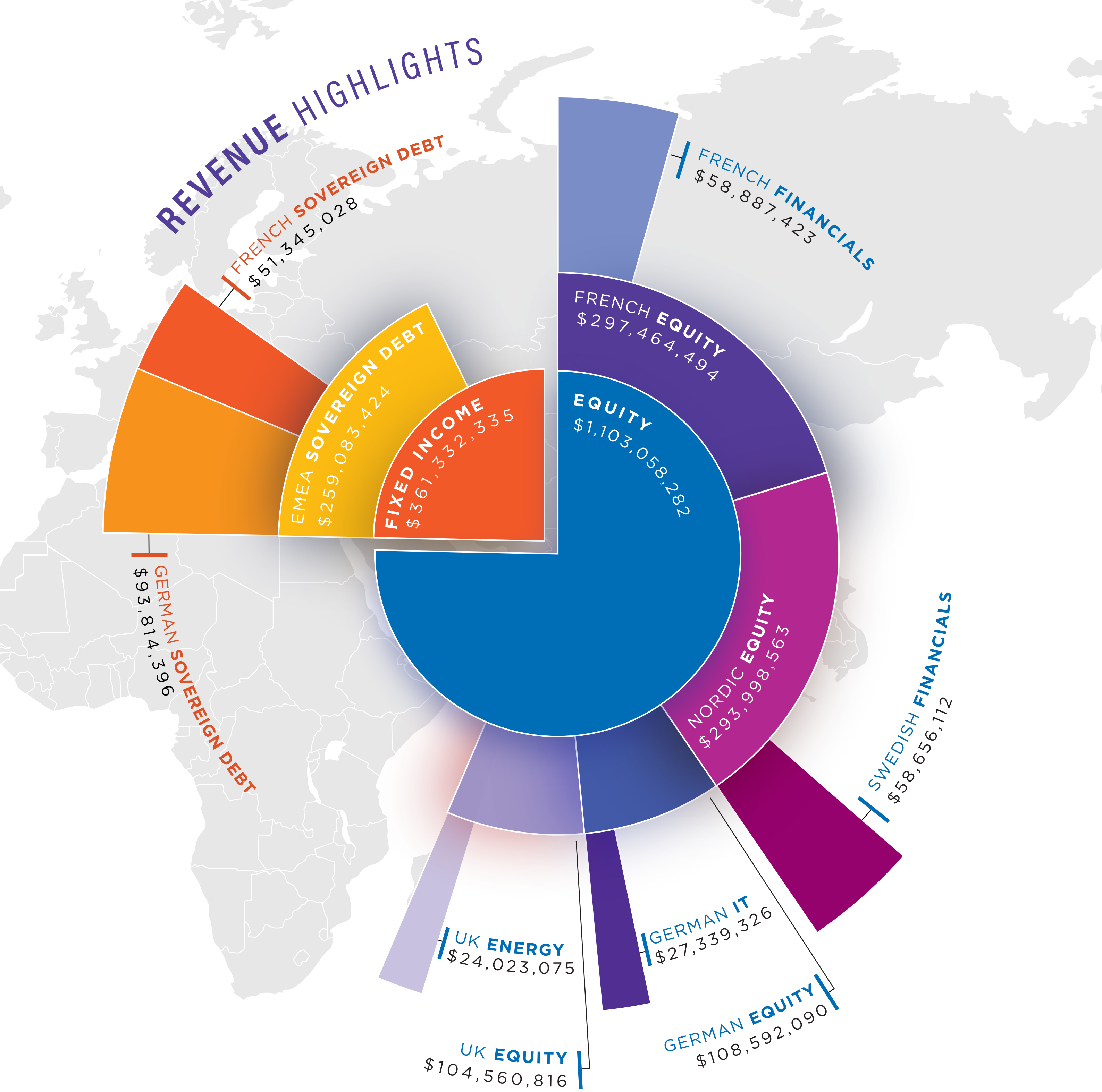
EMEA

LENDABLE $4.14 TRILLION | **ON LOAN: $550** BILLION | **REVENUE $1.46** BILLION



REGION FOCUS: ASIA PACIFIC (EX JAPAN)

SECURITIES finance revenue in Asia ex-Japan for the first half of 2017 fell when compared to the same period in 2016. Overall revenue for the region was down by 17% year over year, from $615.4 million in 2016 to $508.5 million this year. Although Taiwan was a bright spot in the region, the drop in revenue was mostly driven by borrowing fees decreasing in Hong Kong and Korea, where lending revenues slipped by 18.8% and 23% respectively. However, increases in fees and revenue in the real estate and information technology sector for some countries in the region helped to mitigate part of the revenue downturn.

Revenue decreases in Hong Kong year on year were driven by a deterioration in lending fees, which dropped from an average of 190 bps at the beginning of 2016 to a low of 102 bps in early May 2017, before recovering to around 140 bps by the end of Q2. The Hong Kong securities finance market grossed $156.3 million as fees averaged 124.9 bps for the first half of 2017, an 18.8% decrease from the $192.5 million in revenue earned during the same period last year.

Concerns over Mainland China's real estate developers helped to fuel higher fees in the Hong Kong real estate sector, which generated $28.3 million in revenue. Much of the second quarter of 2017 recovery in fees was due to a short squeeze in Evergrande (3333 HK). While share prices increased, fees to borrow also rose to generate $12.1 million. Another in-demand real estate sector equity was Fullshare (607 HK), which grossed $9.6 million.

The Consumer Discretionary and Information Technology sectors both helped to mitigate the overall decline in Hong Kong revenue. Consumer discretionary grossed $35 million in revenue as fees averaged 151 bps for the first half of 2017, while the information technology sector saw year-over-year revenue rise to almost $20 million from $13.1 million.

Familiar names such as China Huishan Dairy (6863 HK), Evergrande and BYD (1211 HK) continued to dominate the top earners in Hong Kong for 2017. However, some of these securities illustrate how Hong Kong has been cooling recently compared to years past: China Huishan Dairy, for example, was the largest securities lending earner for Hong Kong in the first half of 2016 to generate $28.8 million, accounting for 15% of total revenue. For the first half of 2017, this security accounted for just 2.75% of total revenue in Hong Kong.

Korea, which was one of the hottest markets in the world last year, saw a significant deterioration in fees to borrow from a high of over 470 bps on October 21, 2016, to a low of around 250 bps in March this year. Fees have since increased to average 290 bps for the first half of 2017. Overall, securities finance revenue for South Korea totaled $145.3 million for the period, down 23% from the $189 million realized in the first half of last year.

Healthcare remained the top-earning sector in Korea, generating $53.35 million with fees averaging 475 bps for the first half of 2017. However, revenue was down 45% from the $97 million generated from average fees of 969 bps from the same period last year. Celltrion (068270 KS), which maintained its position as the largest revenue generator for the first half year of 2017 with revenue of $25.5 million, saw a very significant $50 million drop in revenue from the same period in 2016 as fees fell during the first half of 2017. Other notable healthcare names include Hanmi Pharmaceuticals (128940 KS), Samsung Biologics (207940 KS) and Yungjin Pharmaceuticals (003520 KS), which grossed combined revenue of $8.8 million.

Information technology was the second top-grossing sector in Korea, generating $27.3 million as fees averaged 295 bps for the first half of 2017. Unlike healthcare, Korea's IT sector experienced 27% year-over-year revenue growth from the $21.5 million grossed in the first half of 2016.

The percentage of balances trading special (i.e., with fees over 500 bps) in Korea fell from 26.61% in H1 2016 to 17.13% by late June 2017. Balances between 250 bps and 500 bps increased from 24% of overall balances to 33%, while GC balances remained relatively unchanged for the first half of 2017. Despite recent tensions with North Korea, overall fees to borrow Korean assets continued to trend lower by the end of summer.

Overall revenue for Australia fell 31.1% from $70 million for the first half of 2016 to $48.2 million for the same period this year as the number of specials in the market decreased. The decline was reflected in the revenue for the top-five earning securities, which dropped from 31% of total revenue in Australia last year to just 22% for the same period in 2017. The largest unwind was Fortescue Metals (FMG AU), which accounted for 14.6% of total revenue ($10.23 million) in the first half of 2016, as iron ore prices recovered and Fortescue's financial outlook improved this year.

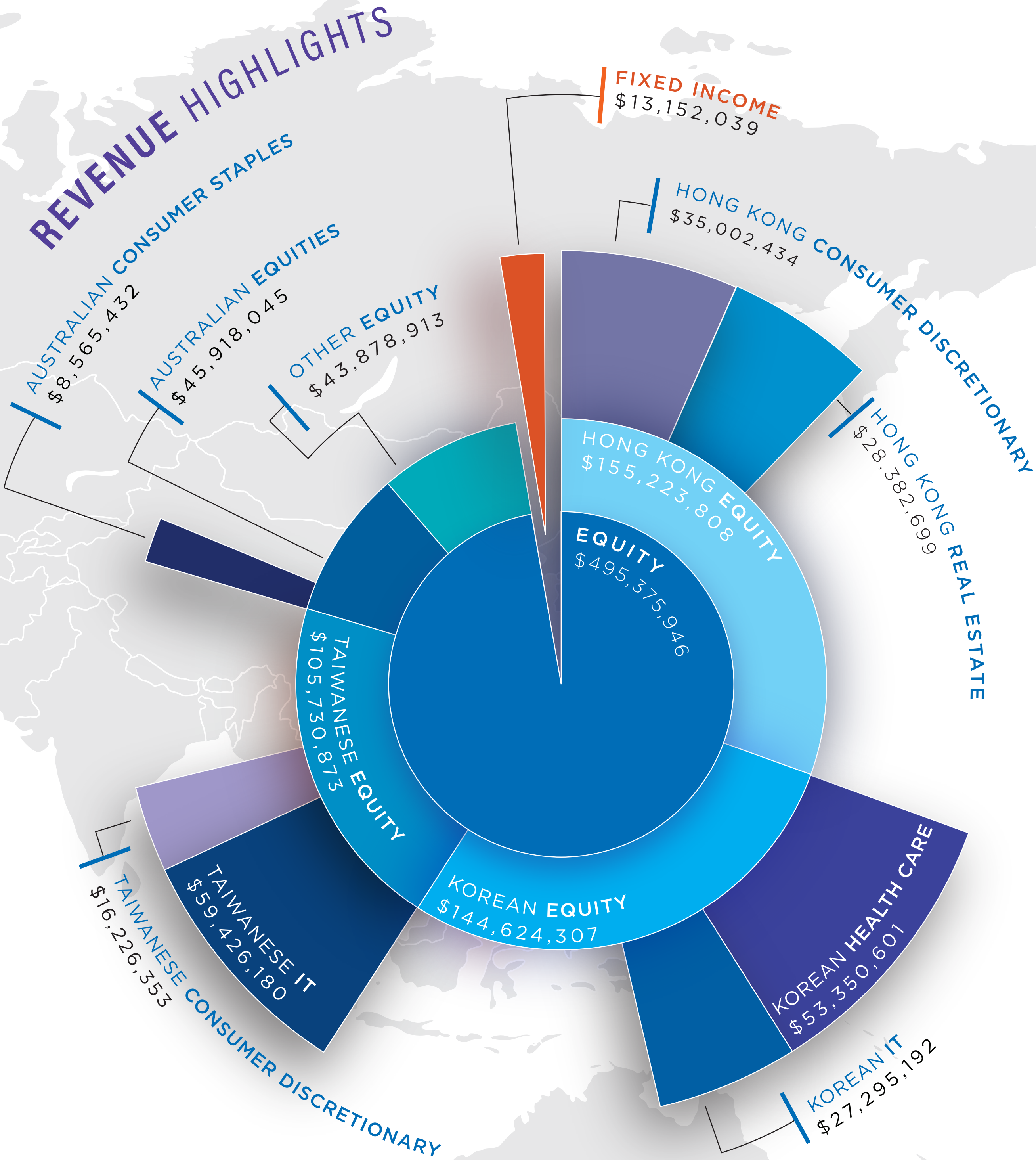
The Australian market saw a shift in balances away from materials into consumer staples from 2016 into 2017 as commodity prices improved. Revenue from lending Australian materials securities generated $10.28 million in the first half of 2017 on much lower average fees of 49.18 bps; that represents a 41% revenue decline from the same period last year. Australian consumer staples generated $8.6 million during the first half of 2017. Some consumer staples firms faced international regulatory challenges, such as Bellamy's (BAL AU), which had its import license into China suspended; as a result, more than $800,000 was generated from lending that company's stock in H1 2017. Blackmores (BKL AU) also faced difficulties as it changed its strategy of selling directly into China; that security yielded $3.95 million in revenue for the first half of 2017.

Aside from Japan (see article on page 33), Taiwan was the only other major market in the Asia region to post an increase in lending revenue for the first half of 2017 versus the same timeframe last year. Taiwan realized impressive revenue of $105.7 million on high fees averaging 263 bps for the first half of 2017, representing a solid 16% increase in revenue from 2016. Part of the rise may have to do with

CONTINUED ON PAGE 32 >>

ASIA PACIFIC (EX JAPAN)

LENDABLE $1.04 TRILLION **ON LOAN: $82.01** BILLION **REVENUE $508.5** MILLION



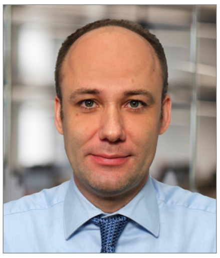
the Taiwan Stock Exchange's move in February 2017 to make looking up securities finance rules easier for participants.

Taiwan's securities finance market continues to be driven by the information technology sector, which saw fees averaging 269 bps to generate $59.4 million, or 56%, of total Taiwanese revenue. Information technology suppliers to Apple, specifically its iPhone product, continue to be in focus. Firms such as HTC (2498 TT), AU Optronics (2409 TT) and Hannstar Display (6116 TT) dominated the top earners in Taiwan and were responsible for $10.6 million in revenue for the first half of 2017.

The consumer discretionary sector in Taiwan saw a 39% revenue increase year over year, from $11.6 million during the first half of 2016 to $16.2 million the same time this year on higher average fees of 333 bps and a larger average on-loan balance of $980 million. Companies such as Eclat Textile (1476 TT), Hota Industrial Manufacturing (1536 TT) and Tatung Co. (2371 TT) dominated the sector and were responsible for $4.6 million in revenue.

The Taiwanese healthcare sector also realized an increase in revenue, from $6.4 million to $8.3 million during the same timeframe. OBI Pharmaceuticals Inc. (4174 TT) was once again the top earner in Taiwanese healthcare for the first half of 2017 with $4.3 million in revenue.

PRODUCT SPECIALIST



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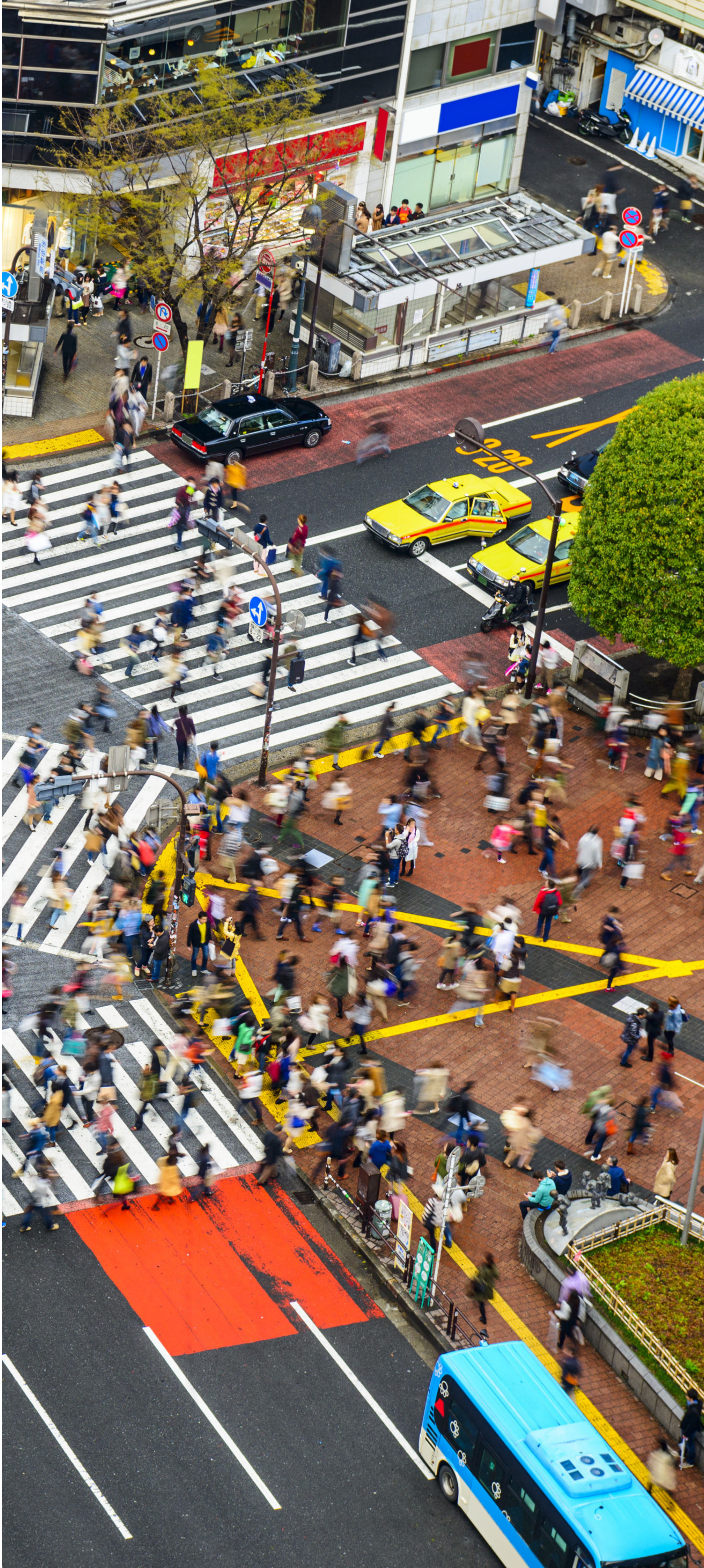

FIGURES ARE FROM JANUARY 1 TO JUNE 30, 2017, AND REPRESENT LENDER TO BROKER ACTIVITY ONLY

JAPAN

WHILE most markets in Asia saw decreases or perhaps modest increases in revenue for 2017, the Japanese securities finance market ran contrary to regional and global trends to realize a fairly substantial rise in both average fees to borrow and revenue from the first half of 2016 to the same period in 2017. The market saw modest gains in specials (securities trading above 500 bps) and loans trading between 50 bps and 150 bps. However, the largest change in the composition of the market was the move in balances from rates below 20 bps into the 20 – 50 bps band as the average fee for GC securities increased over the period. This change coincided with a move to negative interest rates by the Bank of Japan. These changes saw the average cost of borrowing equities in Japan rise from 63 bps to 80 bps, a 27% increase year over year.

Average on-loan balances stayed mostly unchanged at around $81.83 billion year over year, while average lendable balances increased by 19% to $741 billion for the same timeframe. That produced an overall utilization of 11% for the first half of 2017. The rise in overall fees helped to generate a total of $264.4 million in lending revenue for Japan by the end of Q2, representing a 22% increase from the $216.8 million in revenue realized during the same period last year. Japan was responsible for 34% of the total revenue for the Asia region for the first half of 2017, up from 26% from the same time last year.

The Japanese market remains the largest securities lending market in Asia both in terms of supply and depth of securities, with over 3,800 securities on loan and 4,700 securities in inventory on any given day thus far this year. Financials, including real estate, plus consumer staples saw modest increases in average loan balances while the industrials and telecommunication services sectors saw declines year over year. The Information technology sector was the hottest sector for Japan in the first half of 2017 with fees averaging 159 bps, an almost 70% increase from the same period last year. The Japanese IT sector also saw the largest increase in revenue year over year from $39.1 million for the first half of 2016 to $68.7 million for the same timeframe in 2017, representing a 75% increase. The increase in fees and revenue was due mostly to the software and services industry, where lending revenue grew from $24.7 million to $48.9 million on higher fees rising from 159 bps to 261 bps as a result of increased demand to borrow companies such as Line Corp, Jig-Saw Inc. and Akatsuki Inc.

Health care was another sector in Japan that saw a significant increase in revenue year over year, rising from $22 million to $36.7 million in revenue on higher fees averaging 158 bps for the first half of 2017. This increase was driven mostly by the health care equipment and supplies industry, which saw revenue grow from $6.2 million to $19.09 million as both fees to borrow and on-loan balances jumped from 160 bps to 363 bps and $784 million to $1.062 billion, respectively. Health care and information technology stocks dominated the top-five earning securities; Sharp Corp, a consumer discretionary stock, was the only exception.

Information technology and consumer discretionary-related stocks continue to be the most in-demand and highest revenue-generating Japanese stocks. Cyberdyne (Q7779) and Sharp (Q6753) continued to be the largest earners, generating over $18 million and $15.6 millon for the first half of 2017, or equivalent to almost 13% of the total market revenue. Cyberdyne saw the largest increase in revenue year on year, growing from $5.4 million for the first half of 2016 to $18.1 million for the same period this year on the back of negative earnings outlook. Revenue from the top-five earning securities rose to $52 million, increasing as a percentage of total market revenue from 16.15% to 20.58% year over year.

AVERAGE LENDABLE $741 BILLION

AVERAGE ON LOAN $82 BILLION

TOTAL REVENUE $264 MILLION

HOTTEST SECTORS

FEES ARE AVERAGES, JANUARY 1 TO JUNE 30, 2017

IT
159 BPS

HEALTHCARE
158 BPS

CONSUMER DISCRETIONARY
75 BPS

REAL ESTATE
72 BPS

UTILITIES
58 BPS

TOP 5 EARNING SECURITIES

TOTAL REVENUE, JANUARY 1 TO JUNE 30, 2017

CYBERDYNE INC	$18,064,953
SHARP CORP	$15,682,160
LINE CORP	$9,361,877
PEPTIDREAM INC	$4,892,101
NISSHA PRINTING CO	$4,143,128

A DAY IN THE LIFE OF

JOHN ARNESEN

GLOBAL HEAD, AGENCY SECURITIES LENDING, BNP PARIBAS SECURITIES SERVICES

Tell us about your current role. What does a typical day look like?

The day starts early. I live in the depths of beautiful Hampshire, so I'm up at 5:20 a.m. and on a train at 6:18 a.m. from Winchester. I love mornings—it's probably a dad thing where it's the only time when the house is quiet, and although my son no longer lives at home, the habit to get up before dawn is there.

Southwest trains have Wi-Fi, so I crack open the laptop and can clear, respond to and write emails for an hour. This makes a huge difference to my day as by the time I get into the office at 7:45, I know exactly what I either need or intend to do for the day. Invariably that plan lasts 10 minutes before an issue presents itself that needs immediate attention. I used to hate the deviation but have learnt that this is a fluid business with many moving parts, so I have to be flexible and prioritize at all times. None of us in the industry have the luxury of excess resources, so the juggling of issues with meetings and deadlines, not to mention regulatory initiatives that are ever present, is a constant challenge.

As head of the agency lending business I have three primary objectives each day: are we maximizing revenue, have we any outstanding queries from clients and are our IT projects related to greater scalability on track.

What is the biggest challenge you face in your position?

Time. There is never enough of it, and they are not making any more. We are heavy on governance and conduct in which I am totally invested, but these disciplines can take up a good amount of time. Remember the daily plan I had ambitions to pursue upon arrival? That is addressed on my journey home, which is a repeat of the morning. The only difference can be my jerking awake as we approach Winchester! I tend to crack open the laptop again when I get home to catch up or reply to dozens of emails. The exception is of course on a Monday if it is nearer to 9 p.m. That is reserved for the greatest television show ever produced!

How does BNP Paribas differentiate itself amongst agent lenders?

The bank, both Securities Services and the Group, are strong financial institutions with excellent results in 2016 and 2017. As a major part of the fabric of the settlement systems in Europe, we attract a lot of clients from all sectors of the market, both buy and sell side.

When those clients require an agency program we analyze carefully what the prospective client can expect in terms of revenue against their risk appetite. Managing client expectations is really important to us. There is nothing worse than surprising clients because communication has been lacking. Clients will forgive a change in market returns and revenue if you have kept them informed. They are not unreasonable, and they have internal expectations to manage too.

Our utilization of European Government debt is the second highest in the market. If the weighted average fee was published, I suspect we would have the highest return to lendable assets. Our central bank, sovereign wealth and insurance company clients are reaping the rewards of this activity, which we fully indemnify. That, I feel, is a strong differentiator.

You have been in the securities lending business for well over two decades now. How has the industry changed in that time?

Indeed, 27 years in December. It is almost unrecognizable from the early '90s when the idea of disclosure was a random event; we wrote paper tickets, including delivery instructions (not an SSI in sight), and wrote reinvested cash on an A4 sheet of paper to keep track of our positions. Sounds antiquated? A lot of money was being made despite this clunky process. The rise of alternative managers in the late '90s and 2000s was perfect timing for the agency business to grow as demand grew exponentially. The formation of EquiLend was a turning point, as was the rise of STP in securities lending transactions. [The period from] 2007-09 didn't destroy the industry, but it has certainly changed the way

liquidity and credit is viewed. The rise of data accessibility has developed in a meaningful way and positioned us closer to what I think is inevitable: a move from OTC to an exchange-based platform base. ESMA have made it a clear ambition for securities finance.

What is your proudest moment on the job? Off the job?

There have been many: Working our way through the U.S. business from London in the aftermath of 9/11 when a 16-hour day was typical with not one complaint from anyone. Playing an instrumental part in winning central bank clients in the face of fierce competition will swell your chest like nothing else. The birth of my children will always stay with me. My daughter recently graduated with a 2.1 hons in history and politics, and that news made me feel immensely proud of her.

What do you do in your spare time?

Put me on a beach, and I'm happy. Put me on a tropical beach, and I'm as happy as Larry. Bournemouth is a 40-minute drive from where I live, and this year I rented a beach hut, which is about the second best thing I've ever done. I spend both weekend days down there, and I ignore the looks I get from the teenagers when I'm body boarding in my wetsuit. There is something about the sea which instantly relaxes me, and I've traveled the world, much like the character in "The Beach" searching for the most perfect beach.

What is the best advice you've ever received?

This may sound trite, but I was a Cub but never pursued Scouts as we had a combined cadet force (CCF) program at school, which was a strong draw for me. The Cubs' motto is "Be Prepared," and I've applied that to almost every situation that warrants it. I will drive my colleagues crazy at times preparing and over-preparing for a client review or new business pitch. I never want to feel not enough was done—even if 80% of the work is not used, so be it.

My father is Norwegian, and they have a strong culture of openness and integrity. He always told me that one's reputation is priceless and to never compromise it, ever. That has proved to be good advice time and time again. I sleep well at night, if only until 5:20 a.m.!

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