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THE PURPLE

A DATALEND RESEARCH PUBLICATION

ISSUE 6

Contents

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DEAR READERS,

It is hard to believe that this is our sixth edition of *The Purple*. Like DataLend, *The Purple* has come a long way in a short span of time. I hope you enjoy the content.

Our world is full of change and turmoil, and the shifting dynamics are an incredible backdrop for the changes we see in the world of securities finance. Whether it is Brexit or trade wars, 5G or distributed ledger, SFTR or the next major regulation coming our way, the landscape is shifting quickly, and the need to keep pace with the acceleration is incredibly demanding.

In this environment, the world continues to need the efficiencies created with further automation. At EquiLend, we continue to push the envelope for greater automation and efficiencies. Whether it is DataLend Portfolio to allow objective analysis of performance, EquiLend Spire for full front-to-back books and records functionality or exploring the possibilities of truly algorithmic trading via NGT and artificial intelligence, we offer the marketplace in global securities finance a best-in-breed solution to all of your technology needs to support your global business.

Please reach out to our newly invigorated Sales and Client Relationship Management teams to learn more. And please enjoy this latest version of *The Purple*.

Brian Lamb
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DEAR READERS,

Welcome to Issue Six of *The Purple*! In this issue we explore the impact of global economic policies on the lending markets with our article on trade wars, a follow-up to our sovereign debt article in Issue Five, a focus on corporate bonds and a behind-the-scenes look into the inner workings of DataLend. We are also excited to showcase the leaders of the Women in Securities Finance industry group. As a member myself, I can testify to the fantastic work Jill, Elaina and Arianne have done to propel this group forward and quickly establish a network and presence for the many women involved in the securities finance market.

As always, DataLend continues to evolve to meet the needs of our clients and the securities finance market. This year, we launched DataLend Consulting, a new offering that provides the support and independent analysis our clients require. DataLend Consulting provides independent program analysis, market intelligence, standardized performance measurement, revenue analysis and board-level presentations and engagement. At DataLend we are fortunate to have a staff of industry veterans working alongside our data analysts—a strong combination for success.

We remain grateful for the strong partnerships we have developed with our client base, and we thank you all for your continued support and valuable insights, which we endeavor to incorporate into our products. We look forward to continuing to expand our engagement as we enhance our consultative offering.

Nancy Allen
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ROUNDTABLE: WOMEN IN SECURITIES FINANCE

EquiLend is a strong supporter of diversity and fostering a culture that is representative of and welcoming to all. We commend the work of the Women in Securities Finance, an industry group dedicated to encouraging and empowering women in the securities finance industry to connect professionally, collaborate and share insights. In this roundtable, *The Purple* features the group's tri-chairs and the work they are doing to promote the group's mission.

Moderator:
Nancy Allen, Global Product Owner, DataLend

Arianne Collette
Executive Director
Morgan Stanley

Elaina Kim Benfield
Senior Counsel
Vanguard

Jill Rathgeber
Director
BNY Mellon

What is the Women in Securities Finance group, and what is its mission?

Women in Securities Finance is an independent industry women's group formed at the beginning of 2018 to foster connections in the securities finance industry.

The group currently consists of members with expertise in trading, sales, relationship management, legal, technology, product development, operations, portfolio management and other disciplines essential to the securities finance industry. Women in Securities Finance is open to all members of the community that specialize in securities finance.

The mission of Women in Securities Finance is to foster connections within the securities finance industry to create a community.

The group's guiding principles are to encourage and empower women in securities finance to connect professionally, collaborate and share insights.

What are some of the biggest achievements of the group since it was founded?

One of the biggest achievements for Women in Securities Finance has been the growth in membership over the past year. What began as a suggestion among a small group of women has quickly grown into an industry networking group that currently comprises more than 200 women representing all facets of the securities finance industry.

Beginning with our initial organizational kick-off meeting in January 2018, and through subsequent events hosted by industry participants, including BNY Mellon, EquiLend and eSecLending, as well as panels and roundtable discussions hosted at the RMA and IMN industry conferences, we have been able to support the group's mission of fostering connections and creating a community for women in the securities finance industry.

Finally, following on the success and turnout from a networking event in Boston at the end of 2017, we have started a Boston Chapter of Women in Securities Finance that will be led by some of the group's original members.

What is the group working on for 2019 and beyond?

Women in Securities Finance will continue to partner with global industry groups and participants to further our mission and implement the group's guiding principles. In addition to the recent roundtable event hosted at the January 2019 IMN conference, we are in the process of partnering with RMA, ISLA, PASLA, CASLA and Finadium. We are also coordinating informal networking and career development events in New York, Boston and Chicago this year. We encourage all industry participants to contact us and share any suggestions on how best to achieve our mission, including suggestions for future keynote speakers and panelists who may or may not be a part of the securities finance industry.

The Women in Securities Finance group is currently focused on the U.S. market. Do you have plans to expand internationally?

Yes. We have sought to grow mindfully and deliberately and continue to give thought to the frequency and types of events we offer that align to our mission. While our current focus is to establish a solid foundation in the U.S., we are collaborating with our peers and industry participants on a global basis to plant the seeds for expansion in other regions.

What does the group see as some of the challenges facing women in securities finance, and how is the group helping to address those issues?

Some of the challenges facing women in the securities finance industry and the financial services sector generally include low numbers of female applicants (at all levels), a lack of community (both informal and formal networks) and, most importantly, a lack of sponsorship critical for advancement.

There is considerable focus on equal opportunities for women and gender equality across all industries in the U.S. Women in Securities Finance seeks to bring attention to these wider themes, as well as address gender and diversity issues for the securities finance industry. The first step is to bring awareness. The second step to foster dialogue. The third step is to move the dial in a measurable way.

What is the group doing to help the securities finance industry acknowledge the impact women have had on the business?

First and foremost, our mission is to foster connections within the securities finance industry and create a community. The group's guiding principles are to encourage and empower women in securities finance to connect professionally, collaborate and share insights. As connections are made and insights shared, we hope to create a dialogue and awareness of issues that ultimately enable women to grow and develop in the securities finance industry.

To those who may not be aware, why does your mission matter?

Because "striving to increase workplace diversity is not only a slogan—it is a good business decision" (Harvard Business Review). The Harvard Business School article on "Why Diverse Teams Are Smarter" cites a 2015 McKinsey report on 366 public companies, which found that those in the top quartile for ethnic and racial diversity in management were 35% more likely to have financial returns above their industry mean, and those in the top quartile for gender diversity were 15% more likely to have returns above the industry mean.

This article further cites a global analysis of 2,400 companies conducted by Credit Suisse, which found that organizations with at least one female board member yielded higher return on equity and higher net income growth than those that did not have any women on the board. Finally, this article notes that non-homogenous teams are simply smarter, because it challenges your brain to new ways of thinking that sharpens performance.

How receptive has the industry been to the group?

Since the inception of the group, we have received incredible support from the securities industry generally, as evidenced by the number and prominence of financial institutions willing to sponsor events, conference organizers providing a forum for discussions and an increase in the numbers of women representing their institutions at these conferences. Additionally, we have benefitted from active participation by both men and women at our past industry events and roundtable discussions.

Finally, we hope to continue to increase the level of interest and engagement by all members of the securities finance industry on a global basis. We believe that by promoting Women in Securities Finance's mission, we will not only help our members, but also help to improve the securities finance industry and all the businesses that support it.

AMIDST GLOBAL TRADE WARS, THE SECURITIES FINANCE MARKET RESPONDS

As the so-called trade wars rage on, DataLend investigates the impact—or surprising lack thereof, in some cases—on securities finance markets across the globe

By Chris Benedict, Product Specialist & Senior Analyst, DataLend

THE UNITED STATES' trade war with its various trading partners around the world officially kicked off in April 2017 when an investigation was launched into whether or not steel and aluminum imports into the U.S. proved a national security threat. This was the first indication to the global markets that the administration was seriously considering widespread protective tariffs on imports.

Other U.S. investigations followed, and the first safeguard tariffs manifested themselves in the form of more than $10 billion on imported solar panels and washing machines in January 2018. The fight escalated from there as China slapped a hefty 178% duty on grain sorghum imported from the U.S., imposed retaliatory tariffs on $2.4 billion worth of aluminum scrap, pork, fruits, nuts, chemicals and other U.S. products and filed a dispute with the World Trade Organization (WTO) against the U.S. solar panel tariff.

By the middle of 2018, the U.S. was embroiled in tariff disputes with China, Canada, Mexico, Brazil, the European Union, Great Britain, South Korea, Australia and many other global trading partners. Tariffs were quickly imposed, but trade negotiations led to many exemptions after the U.S. realized it would need to subsidize American farmers for up to $12 billion in lost export sales.

Although negotiations with China and other trading partners are currently still in flux, it is estimated that the U.S. has placed tariffs on approximately $250 billion worth of Chinese goods thus far. China in turn has retaliated with $110 billion worth of tariffs on U.S. imports, targeting politically delicate industries such as farming, while threatening "qualitative measures" against U.S. companies to make doing business in China more difficult. The rhetoric between the two countries ratcheted up significantly in May of this year when China's state broadcaster boldly declared: "If you want to fight, we'll fight you to the end," sending global markets into a tailspin. The recent economic data indicates that the trade wars are beginning to take a toll: China's retail, export and industrial growth all saw significant declines in late 2018.

DataLend reviewed securities lending activity in 2018 to see what impact the ongoing trade wars have had on the demand to borrow various assets across the world.

United States

While the trade wars may have caused some longs to sell off, the U.S. securities lending market has had only a moderate reaction. Volume-weighted average fees to borrow U.S. equities dropped in 2018 to 48 bps, down from an average of 55 bps in 2017; fees averaged around 40 bps further into 2019. Utilization was also down very slightly over the same timeframe from 10.6% to 8.6%, and that average utilization figure has continued into 2019.

However, when drilling down into impacted industries, DataLend saw a significant increase in volume-weighted average fees to borrow stocks in the U.S. Automobiles and Components industry in the spring of 2018 after China announced sweeping tariffs on $50 billion worth of U.S. goods, including autos.

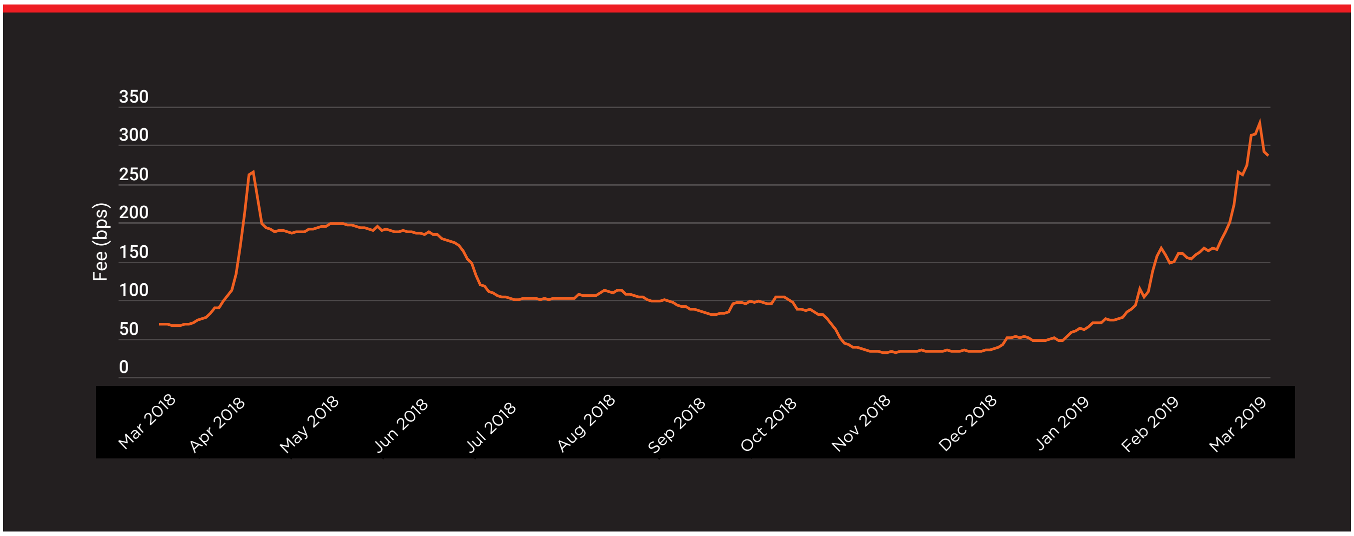
Fees shot up from an average of 68 bps in February to reach a peak of 266 bps in mid-April before easing back down to 50 bps by the end of last year. However, fees in this industry appear to be on the incline again, having reached over 300 bps in early March 2019.

The average utilization in this industry also rose from 24% to 28% during the same timeframe. Some of the names contributing to the fee increase during this time included Peugeot ADR (PUGOY), Geely Automobile Holdings ADR (GELYY), Adomani Inc. (ADOM), Sorl Auto Parts (SORL) and Tesla (TSLA). The U.S. Automobiles and Components industry grossed $172.3 million in revenue for securities lenders in 2018, up 72% from $100.1 million in 2017. As previously noted, this industry has started off 2019 trending hotter as a result of heavy demand for NIO Inc. (NIO) and Kandi Technologies (KDNI), Chinese electric automotive ADRs trading in the U.S.

China is the world's largest importer of soybeans, and in 2017 the U.S. exported $14.5 billion worth of the product to China in 2017, according to the Iowa Farm Bureau. U.S. soybean exports to China plummeted by 98% in 2018 as a result of the trade wars, per research from Deutsche Bank.

The securities lending market reacted to the massive drop in exports in the Teucrium Commodity Trust Soybean Fund (SOYB). This ETF saw its volume-weighted average fees rise

FIGURE 1: VOLUME-WEIGHTED AVERAGE FEES, U.S. AUTOMOBILES AND COMPONENTS, MARCH 2018-19



twofold from March to May 2018. Fees remained high during the summer as soybean futures dropped, and the ETF share price slumped by 19%, similar to patterns observed in the soybean futures market during the same timeframe. Fees remained in the higher range more recently as share prices of the ETF remained depressed in early 2019. The securities lending market also saw strong demand to borrow Chinese and other Asian ADRs trading on U.S. exchanges in 2018, particularly in the Information Technology sector.

Companies such as JA Solar (JASO), Cheetah Mobile (CMCM), Xunlei Limited (XNET), Daqo New Energy (DQ), GDS Holdings (GDS), Gridsum Holdings (GSUM) and Semiconducter Manufacturing International (SMI) made a combined $13.1 million for securities lenders last year. Other Asian ADRs such as AU Optronics (AUO), Himax Technologies (HIMX), Silicon Motion (SIMO) and Taiwan Semiconductor Manufacturing (TSM) also saw strong demand in 2018, generating $14.4 million in securities lending revenue.

Canada and Mexico

In addition to the tariff tussle with China, the Trump administration sought to rewrite the North American Free Trade Agreement (NAFTA) in fall last year. The new United States-Mexico-Canada Agreement (USMCA) wasn't a radical change from NAFTA, and it doesn't seem to have made an impact on the securities lending market.

On June 1, 2018, the U.S. ended the exemption for Canada and moved forward with a 25% tariff on steel and 10% on aluminum. The Canadian equities market saw volume-weighted average fees climb from around 64 bps on March 1 to just over 100 bps at the end of July.

While the share prices of Canadian steel and aluminum companies such as Russel Metals (RUS CN), Tree Island Steel (TSL CN), Stelco (STLC CN), First Quantum Minerals (FM CN) and others sold off, fees and utilizations in these names in the securities lending market remained low last year.

Similar to Canada, Mexican equities saw fees rising steadily prior to June 1 to a peak of just under 100 bps before dropping back down to an average of 53 bps. This movement, however, may not have been related to the 25% tariff on $3 billion worth of imported Mexican steel.

Overall, the securities lending markets in Canada and Mexico thus far appear to have ignored any effects from the U.S. tariffs and the USMCA.

Europe

Like the U.S., the overall European market appeared relatively stable in 2018 with fees to borrow European equities averaging 58 bps over the last 12 months. Utilization increased to a high of 12.32% during the busy corporate events season in May, but settled back down to a 7% to 8% range for the remainder of 2018. The U.S. threats of tariffs on European products focused on the European auto export market, worth an estimated $150 million, according to the European Automobile Manufacturers Association. When viewing the European Automobiles and Components industries, there was a slight increase in utilization from 12.5% in early March to a peak of 18% by May 2018, but no corresponding increase in fees to borrow.

Volkswagen (VOW GR), BMW (BMW GR) and Daimler (DAI GR) represent a substantial amount of the European import/export market, and the share prices of all three were down approximately 20% since May 2018. However, the securities lending market has not followed suit: While the utilization of these three large companies did increase slightly in spring 2018, trading in the securities finance market remained relatively calm despite lower share prices. This could be because the Trump administration's proposed tariffs on European car imports was less punitive than anticipated at just 2.5%.

Asia

One of the largest impacts of the trade wars thus far can be observed in the Asian markets, specifically Hong Kong, Taiwan and South Korea, which are typically used as proxies to short China given the operational challenges of borrowing assets in that market (see "Accessing China" in Issue 4 of *The Purple* for more detail).

For instance, the Transportation industry in some Asian markets saw significant increases in fees to borrow. Asian shipping companies in particular were under selling pressures based on fears that Chinese exports flowing through various ports would slow considerably as a result of U.S. tariffs. Fees to borrow Hong Kong Transportation stocks rose from an average of 125 bps in late February to a high of 210 bps by early June 2018. South Korea Transportation volume-weighted average fees also rose during the same time frame, from 240 bps to approximately 450 bps. Companies contributing to the overall fee increase to borrow Asian transportation companies include Hyundai Merchant Marine Co. (011200 KS), Cosco Shipping Holdings "H" shares (1919 HK), Hutchison Port Holdings Trust (HPHT SP), China Merchants Port Holdings (144 HK) and Orient Overseas (316 HK).

A clear impact to Hong Kong's Technology Hardware and Equipment industry is visible after the U.S. finalized a 10% tariff on $200 billion worth of Chinese goods, including computer parts and peripherals on July 10, 2018. The securities lending market reacted immediately, sending fees to borrow the industry soaring from 112 bps to 415 bps by July 19. Securities lenders grossed over $33 million in Hong Kong's Technology Hardware and Equipment industry last year, up a significant 92% from $17.1 million in 2017.

Securities trading hotter during this time included China Youzan Ltd (8083 HK), Yangtze Optical Fibre and Cable (6869 HK), China Goldjoy Group Ltd (1282 HK) and Nanfang Communication Holdings (1617 HK). A similar trading pattern can be seen for the same industry in Taiwan as fees rose from 280 bps in May to reach just under 400 bps by July 2018.

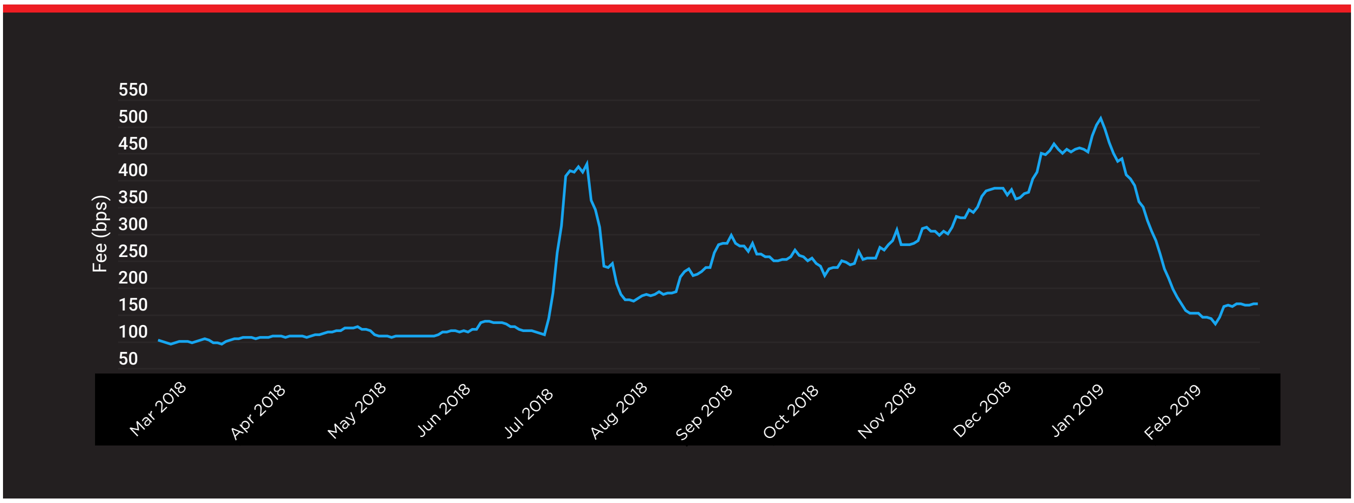
The Taiwanese Technology Hardware and Equipment industry generated $123.7 million in revenue last year, up 63% from $75.8 million observed in 2017. Recently we've seen fees to borrow this industry cool a bit, perhaps related to President Trump's optimistic comments that he wanted a trade deal done with China and that talks were "going very well" in January.

Fee increases to borrow Hong Kong Capital Goods companies also visibly rose during the July 2018 timeframe and beyond. Volume-weighted average fees for this industry rose from 181 bps in early April to 260 bps in mid-July 2018. Fees continued to rise to reach a peak of 323 bps by late October before cooling to 217 bps more recently.

The South Korean Capital Goods industry also saw strong demand as a result of the trade war's impacts, with fees trading just under 300 bps in June last year. The lending of Hong Kong Capital Goods equities grossed $41.6 million in revenue in 2018, an 87% increase from the $22.2 million generated in 2017, while lending the South Korean Capital Goods industry generated $49.8 million last year, up 53% from $32.5 million in 2017.

The full economic impact of the trade wars has yet to be felt by all parties involved, and the possibility of billions of dollars worth of additional tariffs across a broad array of goods and services are still on the table. With certain countries being excluded or partially excluded from tariffs and intense multilateral negotiations ongoing, expect more volatility in the cash and securities lending markets as deals are reached (or negated).

FIGURE 2: VOLUME-WEIGHTED AVERAGE FEES, HONG KONG TECHNOLOGY & EQUIPMENT COMPANIES, MARCH 2018–19



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CORPORATE BOND LENDING PICKS UP

In 2018 corporate bond issuance was down to its lowest level in seven years as rising interest rates, trade wars and liquidity concerned potential investors. This has changed somewhat at the beginning of 2019 with the Federal Reserve pausing its rate-hiking cycle and negotiations around trade agreements and tariffs entering a new phase of uncertainty in May

By Tom Ashton, Product Specialist, DataLend

CORPORATE BONDS are debt securities issued by a corporation and sold to investors to raise needed capital. Corporate yields are made up of interest from risk-free government debt plus a credit premium, which represents the additional risk of purchasing debt in a company. As most readers will be aware, the securities lending markets act as the oil between the cash markets, allowing dealers to fund new issues and take directional views on companies and sectors.

According to a DataLend analysis, 48,000 unique global corporate bonds are in inventory, and 18,000 are on loan. Revenue for lending corporate bonds jumped 7.3% from $500.9 million in 2017 to $537.5 million in 2018. Lending corporate bonds now accounts for 25% of the securities lending revenue stream in fixed income securities, as seen in Figure 1. That is an astonishing figure when considering that the average ticket size is between $500,000 and $1 million.

Echoing the sheer amount of corporate bonds available in the U.S., the average lendable balance for North America was a staggering $1.98 trillion in 2018, more than double the value of all other regions combined. It is no surprise then that North America accounted for almost 50% of the revenue earned by participants lending corporate bonds in 2018, per Figure 2. Corporate bonds issued in EMEA, despite being less than half of the inventory and on-loan balances of North America, actually contributed 38% of the total revenue last year. That is due to higher fees charged on smaller on-loan balances: EMEA corporate bond revenue amounted to $204 million last year versus $265 million from the U.S. Volume-weighted average fees were 46 bps for EMEA corporate bonds versus 30 bps for U.S. corporate bonds in 2018.

Due to the high frequency of daily trades in corporate bonds, NGT, EquiLend's award-winning trading platform, plays an important role in facilitating these trades efficiently between borrowers and lenders. Corporate bond volumes traded across NGT have grown substantially, from $678 billion in 2017 to over $1.1 trillion in 2018 with an average of over 5,200 trades per day.

The average on-loan value of global corporate bonds was $143 billion in 2018 with an average fee of 38 bps. More recently, the volume weighted average fee to borrow global corporate bonds has dipped to just below 30 bps.

North America

In North America, the on-loan value of corporate bonds increased from $86.3 billion in early January 2019 to just over $90 billion by May. Similar to patterns observed globally, fees to borrow North American corporate debt have slumped from an average of approximately 30 bps in 2018 to 22 bps by mid-May.

Figure 1: Fixed Income Revenue by Asset Type (USD) – 2018

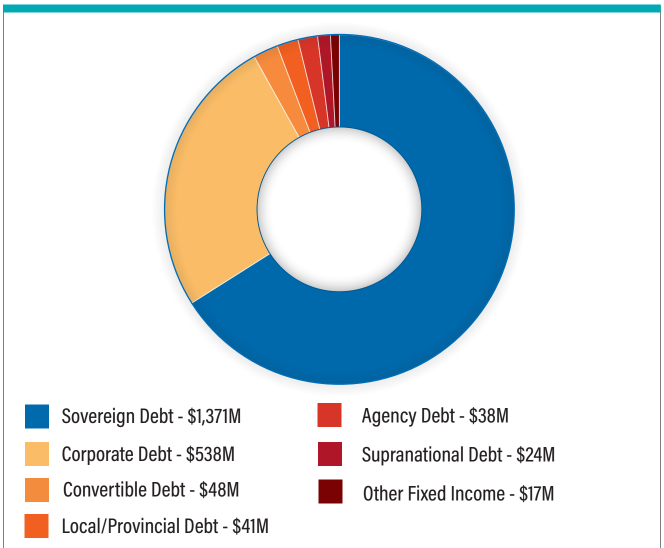
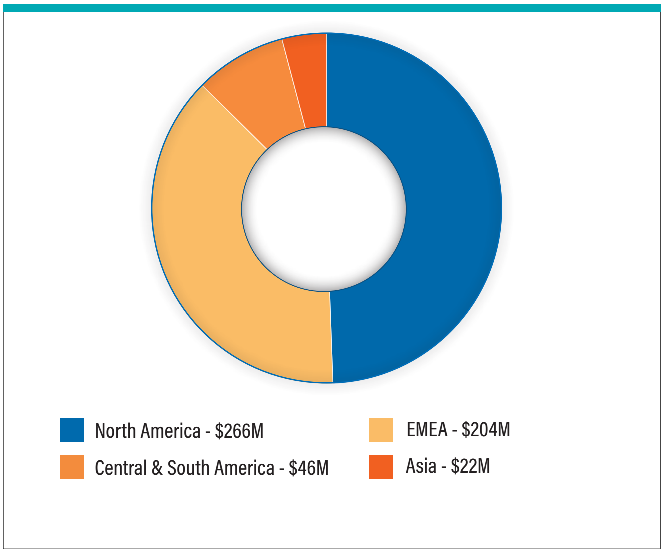


Figure 2: Corporate Debt Revenue by Region (USD) - 2018




OK!

Like all the other regions, 99% of U.S. corporate bonds trade on an open basis, giving dealers the flexibility to close with notice; very few trades were done on a term basis, where the bonds are borrowed for a fixed amount of time.

However, the volumes that are traded against cash collateral far outweigh trades versus non-cash collateral in the region, at 85% versus 15% respectively. This is driven by two main factors: First, a significant portion of U.S. corporate bond loans clear via DTC to U.S. borrowers, which are naturally long U.S. dollar cash and would prefer to pledge that cash as collateral. The second factor is profitability in the cash reinvestment market. From the lender's perspective, assuming the beneficial owner has flexible cash reinvestment parameters, there is an opportunity to make a better return by taking cash and reinvesting further out the curve, providing additional yield pickup versus a flat fee against non-cash collateral, which cannot be used to realize additional alpha. For more information regarding cash reinvestment profitability, see "Cash Reinvestment Revenue in Securities Lending" in Issue 5 of *The Purple*.

Central and South America

The on-loan value of corporate bonds in Central and South America dropped by 4% in 2018 versus 2017, although fees remained a very healthy 67 bps on average in 2018. Fees to borrow corporate debt in this region have also been on the decline, easing by a significant 31% to just under 46 bps by May this year. Many emerging market companies in South America have benefited from previous historically low interest rates in the U.S., borrowing (issuing debt) in U.S. dollars. Rising interest rates in the U.S. over the last year, combined with potentially weakening domestic currencies, make servicing this debt more expensive.

This increased cost, coupled with the impact of trade wars across the globe, could potentially lead to substantial corporate defaults in the region. Such concerns have had a muted impact on the securities lending market, however; revenue growth is mostly flat year on year at approximately $45 million. As in North America, practically all trades are done on an open basis, although the split between cash and non-cash collateral is roughly 60/40 in favor of cash.

EMEA

In Europe, the corporate bond market also has a lot to contend with as quantitative easing comes to an end, low economic growth persists, political risk (particularly in Italy) grows and, of course, continued uncertainty around Brexit. With all of these moving parts comes volatility and therefore increased securities lending activity as dealers take directional views and hedge against possible outcomes. Utilization of European corporate bonds increased from 6.5% in 2017 to 7.25% last year with an average of $36.17 billion on loan over the course of 2018.

Fees to borrow EMEA corporates commanded an average of 46 bps last year, while revenue generated for lenders was up an impressive 28% from 2017 to $204 million in 2018. Fees to borrow EMEA corporates have also been on a slight decline recently to just under 44 bps in mid-May. Similar to other parts of the world, more than 95% of EMEA corporates trade on an open basis. However, what is in contrast to the U.S. market is the split in cash versus non-cash collateral. In EMEA it is nearly 60/40, but in favor of non-cash collateral. This is driven by the two factors discussed earlier, but contrary to activity in the U.S., borrowers of EMEA corporates are based in the region and would prefer to offer non-cash collateral to finance their existing inventory and gain balance sheet benefits.

The adoption of non-cash collateral via tri-party agents is also more widely used in EMEA versus North America. From a lender's perspective, with interest rates still so low in EMEA and ample liquidity in the market, there is less appetite to lend bonds versus cash collateral given the challenges to reinvest the cash at profitable levels. Given the current interest rate environment for the foreseeable future in Europe, there is little premium available for investing for longer periods.

Asia

While Asia makes up a smaller percentage of the lendable and on-loan market in corporates compared to the rest of the world, with $153 billion in average lendable assets and $4.8 billion on loan, revenue has increased by 11% year on year to $22 million. Once again, nearly all trades in Asian corporate debt were booked on an open basis. However, the split between cash and non-cash collateral is roughly 50/50. Similar to patterns observed in other regions, fees to borrow Asian corporate debt averaged 34 bps by mid-May this year, down from an average of 45 bps in 2018.

Ratings

As mentioned, historically low interest rates have meant companies have gorged themselves on cheap access to debt. As interest rates begin to rise, these heavily indebted companies may come under pressure to meet regular interest payments on their bonds if profits cannot keep pace with their costs. This pressure could result in the credit rating of the bond being downgraded. While it might have a minimal effect in the securities finance market if bonds stay in the investment-grade space, a shift from BBB- to non-investment-grade (or junk) status could have a profound effect as many investor mandates forbid them to hold non-investment-grade rated bonds. The pool of such securities held by beneficial owners therefore would be reduced and fees to borrow elevated as short sellers seek to capitalize on the liquidation of downgraded bonds.

Of the top five earners for corporates for last year (Figure 3), all of them were sub-investment grade, implying that agent lenders are still willing to lend but are pricing accordingly to reflect the liquidity risk and worse-case possibility of defaults in lending out these assets. Tesla has been one of the most profitable equities for securities lenders in 2018 and also appears in the top five earners in corporate bonds as short sellers express their concerns over the company's ability to meet its interest obligations.

With revenue for lending corporate bonds now accounting for a quarter of the fixed income revenue stream, this asset class is likely to continue to be a strong revenue provider for lenders again this year. ▲

FIGURE 3: TOP-EARNING CORPORATE BONDS BY ISSUER, 2018

Name	Region	Country	Sector	Total Revenue
COMMUNITY HEALTH SYSTEMS INC (NEW)	North America	United States	Health Care	$13,073,688
CENTURYLINK INC	North America	United States	Communications	$8,809,734
ALTICE LUXEMBOURG S.A.	Europe	Luxembourg	Communications	$8,270,804
MALLINCKRODT INTL FINANCE SA	Europe	Luxembourg	Health Care	$5,921,950
TESLA INC	North America	United States	Consumer Discretionary	$5,817,381

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*2018 Global Investor International Securities Finance (ISF) Survey.

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EMERGING TRENDS IN SECURITIES FINANCE

DATALEND TAKES A LOOK BEYOND Q1 TO FORECAST WHAT TO EXPECT AHEAD IN THE SECURITIES FINANCE INDUSTRY.

BY **KEITH MIN**, PRODUCT SPECIALIST, **DATALEND**

FREQUENCY OF SUPER HOTS ON THE RISE

Small-cap or nano-cap securities trading super-hot generally have minimal impact on total revenue and can often be overlooked when viewing macro-level data. However, one of the trends DataLend has observed when comparing Q1 2018 to Q1 2019 was that the number of securities with an average fee greater than 10,000 bps over each time frame has doubled from 31 to 65 unique securities, with maximum fees for each period reaching 21,800 bps in 2018 and 90,954 bps in 2019.

ASIAN EQUITIES LEADING THE CHARGE

While the global equity market has seen mixed or decreasing results in the first quarter of 2019 compared to the previous year, Asia has seen increases across the number of securities on loan, the revenue generated, as well as the total on-loan value lent during this time frame. Japan alone saw a 10% increase in equity revenue generated ($223 million) and a massive 25% increase in average equity on-loan balance ($128 billion) from the same period year over year. Meituan Dianping (Hong Kong), Samsung Electro-mechanic Co. and Celltrion Inc. (Republic of Korea) solidified the region's standing, with all three present in the global top 20 revenue-generating securities during this time frame.

BOTTOMING OF SOVEREIGN DEBT

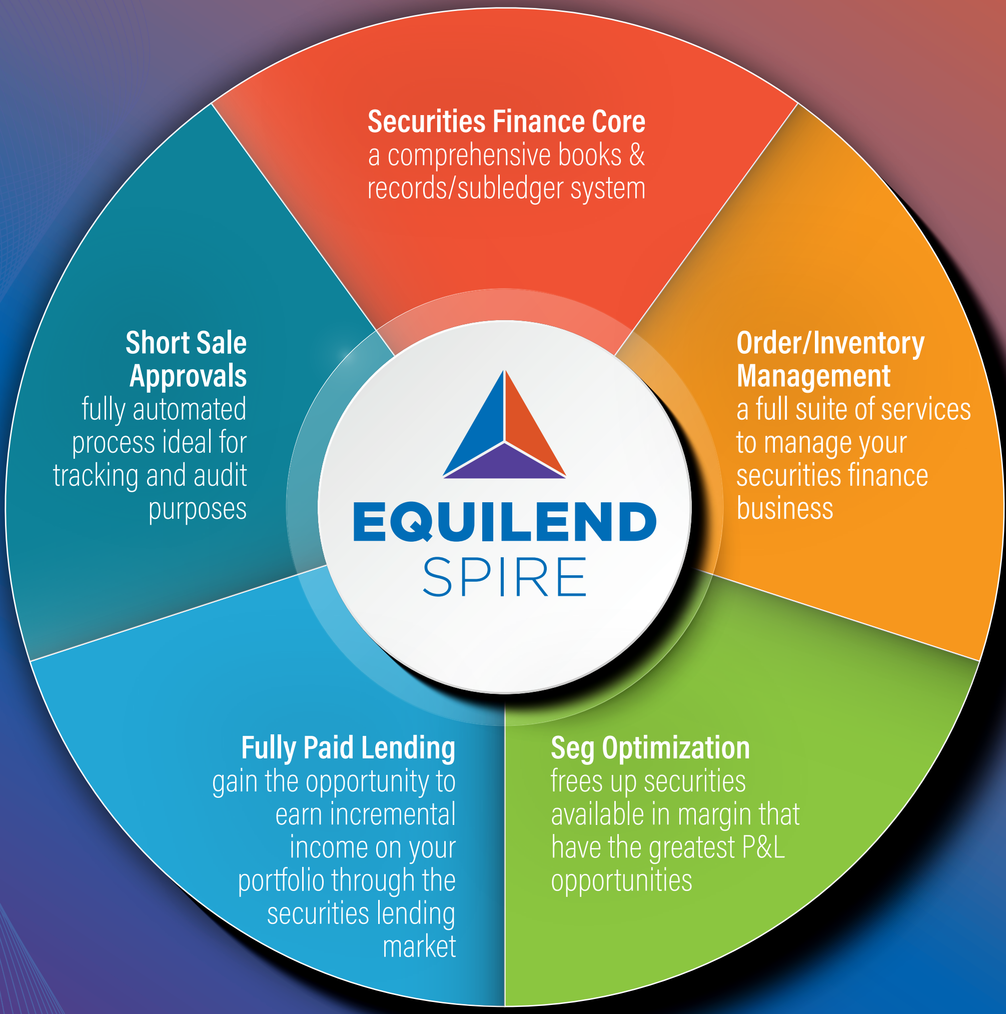
Of all the asset classes available within DataLend, none has seen as dramatic a decrease in average on-loan value, revenue and average fee as sovereign debt. Comparing Q1 year over year from 2018 to 2019, the average on-loan value in this asset class decreased 19% ($76 billion to $61 billion), revenue decreased by 39% ($416 million to $255 million) and the average fee across contracts fell by 24% (14 bps to 11 bps). While there are many potential causes for the regression—restrictive fee minimums or improved liquidity coverage ratio management, to name a few—DataLend has observed recent stability in sovereign debt demand from March to early April, with daily utilization hovering around 32% and daily on-loan values of approximately $955 billion.

NON-GC GROWTH IN FRANCE

Despite Europe not experiencing the same upturn in securities lending activity as Asia, one country in the region has shown significant growth amongst non-GC securities (greater than 50 bps fee). The French market, including high-earning securities Casino Guichard-Perrachon, Sodexo and Eurofins Scientific, observed an increase of 55% in revenue and 20% in average on-loan value for non-GC securities in Q1 2019 compared to Q1 last year. The average fee for all French securities also increased from 32 to 47 bps over the same time period.

SECTOR HIGHLIGHTS

With decreased demand in Sharp Corp and Tesla Inc. toward the end of 2018, revenue generated from the Consumer Discretionary sector in the first quarter of 2018 to the same period in 2019 decreased by 17%. On the opposite side of the spectrum, the Health Care sector, mainly driven by Pharmaceuticals, outperformed over the same quarter last year, with a 44% increase in revenue generated.



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Securities Finance Revenue

JANUARY 1 TO DECEMBER 31, 2018

Global

$9,955,721,989

↑ **7.92%** FROM **$9.225** BILLION IN **2017**

Americas

$4,650,290,068

6.39% YEAR OVER YEAR FROM
$4.968 BILLION IN **2017**

EMEA

$3,088,926,032

21% YEAR OVER YEAR FROM
$2.553 BILLION IN **2017**

Asia Pacific

$2,216,505,889

30% YEAR OVER YEAR FROM
$1.705 BILLION IN **2017**

FIGURES ARE FROM JANUARY 1 TO DECEMBER 31, 2018, AND REPRESENT LENDER TO BROKER ACTIVITY ONLY

2018 IN REVIEW

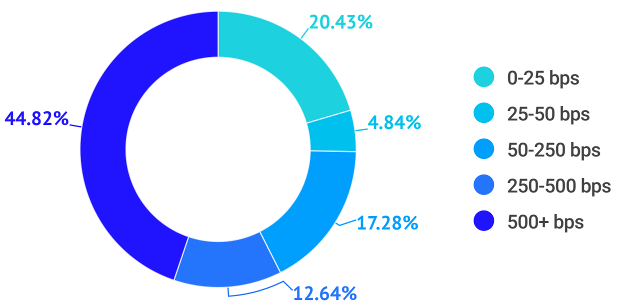
AMERICAS
ASIA PACIFIC
EMEA

AMERICAS

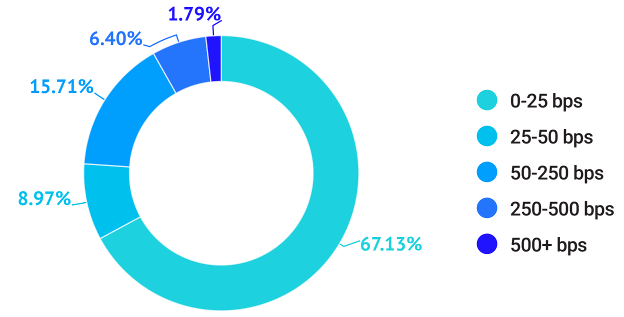
FIGURES ARE FROM JANUARY 1 TO DECEMBER 31, 2018, AND REPRESENT LENDER TO BROKER ACTIVITY ONLY

LENDABLE	ON LOAN	REVENUE	FEES
$12.28 Trillion	$1.56 Trillion	$4.65 Billion	30 bps

EQUITY REVENUE BY FEE



FIXED INCOME REVENUE BY FEE



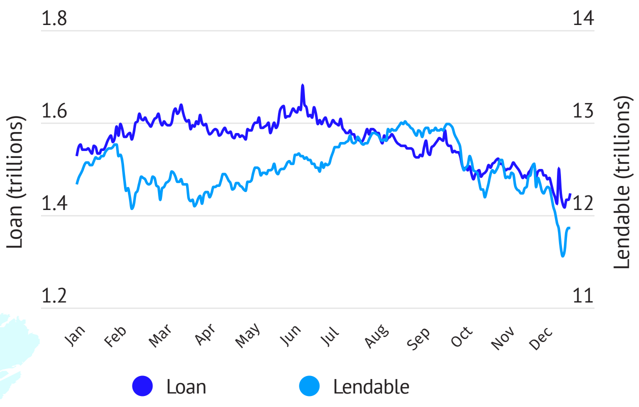
TOP EQUITY EARNERS

	Security	Revenue
	TESLA INC	$142,732,411
	UBIQUITI NETWORKS INC	$77,638,127
	SIRIUS XM HOLDINGS INC	$63,242,156
	ISHARES TRUST IBOXX USD HI YLD CP BD	$55,808,327
	FORTIVE CORP	$55,548,207
	ALIBABA GROUP HOLDING	$42,099,917
	CANOPY GROWTH CORPORATION	$39,097,210
	MIMEDX GROUP INC	$37,466,820
	APPLIED OPTOELECTRONICS INC	$37,433,270
	SUNPOWER CORP	$34,961,741

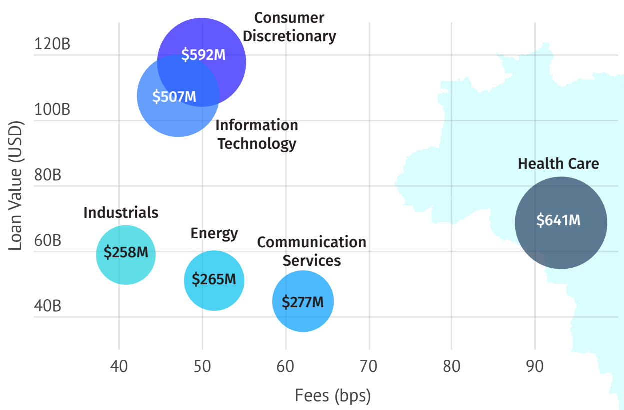
TOP CORPORATE DEBT EARNERS

	Security	Revenue
	BKNG 0.9% 09/15/21	$10,253,160
	TSLA 5.3% 08/15/25	$5,817,381
	THC 6.75% 06/15/23	$5,472,513
	CTL 7.5% 04/01/24	$3,958,300
	NE 7.5% 01/15/24	$3,768,045
	CYH 6.875% 02/01/22	$3,420,048
	CYH 7.125% 07/15/20	$3,034,704
	CTL 5.625% 04/01/25	$2,855,986
	TMH 6.375% 02/01/25	$2,852,820
	CHK 8% 06/15/27	$2,734,767

ON LOAN VS LENDABLE



TOP SECTORS BY REVENUE



MARKET BREAKDOWN

AVERAGE LENDABLE, ON LOAN, FEES AND TOTAL REVENUE FOR 2018

UNITED STATES

	EQUITIES	FIXED INCOME
LENDABLE	$7.11T	$3.60T
ON LOAN	$613B	$766B
FEES	48 bps	13 bps
REVENUE	$2.99B	$1.02B

CANADA

	EQUITIES	FIXED INCOME
LENDABLE	$537B	$778B
ON LOAN	$41.9B	$122B
FEES	96 bps	10 bps
REVENUE	$408M	$126M

LATIN AMERICA

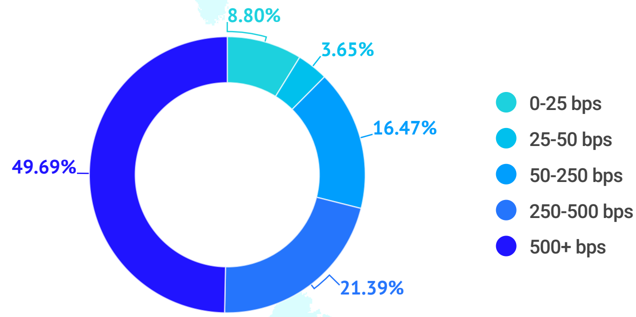
	EQUITIES	FIXED INCOME
LENDABLE	$38.3B	$215B
ON LOAN	$2.4B	$15.2B
FEES	132 bps	53 bps
REVENUE	$31.9M	$80.6M

ASIA PACIFIC

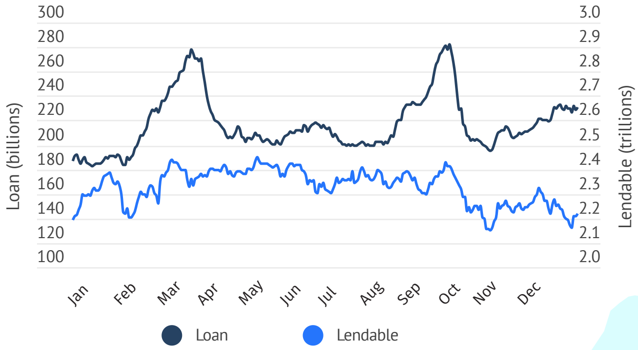
FIGURES ARE FROM JANUARY 1 TO DECEMBER 31, 2018, AND REPRESENT LENDER TO BROKER ACTIVITY ONLY

LENDABLE	ON LOAN	REVENUE	FEES
$2.33 Trillion	$217 Billion	$2.22 Billion	102 bps

EQUITY REVENUE BY FEE

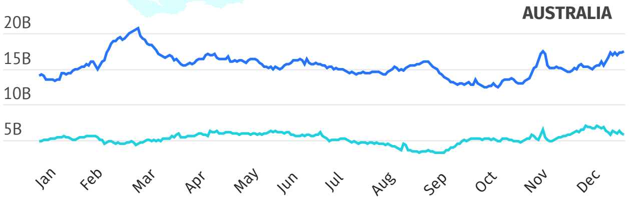


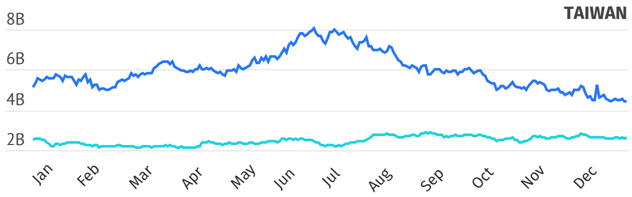
ON LOAN VS LENDABLE

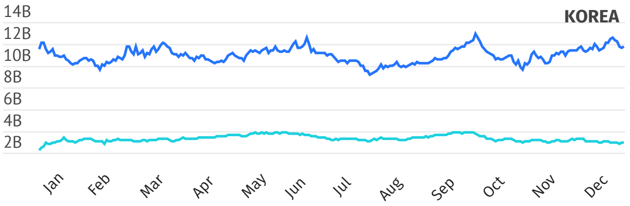


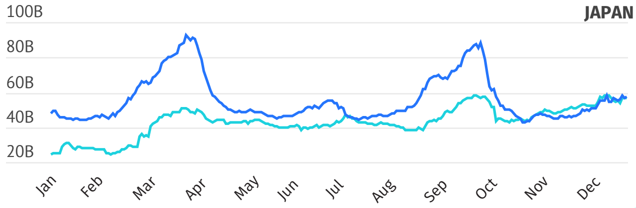
ONSHORE VS OFFSHORE LOAN BALANCE

Offshore Onshore





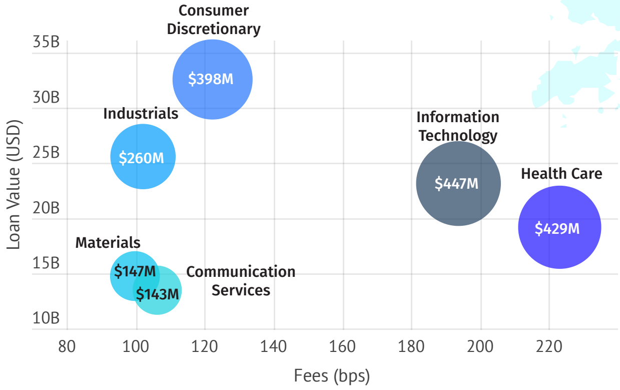




TOP EARNERS

	Security	Revenue
🇰🇷	CELLTRION INC	$130,591,313
🇯🇵	SHARP CORP	$66,894,300
🇰🇷	CELLTRION HEALTH CARE CO LTD	$48,053,743
🇭🇰	BYD COMPANY LIMITED 'H'	$46,696,786
🇯🇵	CYBERDYNE INC	$30,173,194
🇯🇵	TAKEDA PHARMACEUTICAL CO LTD	$28,829,539
🇰🇷	SILLAJEN INC	$27,790,910
🇹🇼	YAGEO CORP	$25,170,134
🇭🇰	SEMICONDUCTOR MANUFACTURING INTL CO	$24,785,641
🇭🇰	FULLSHARE HOLDINGS LIMITED	$23,011,388

TOP SECTORS BY REVENUE



MARKET BREAKDOWN

AVERAGE LENDABLE, ON LOAN, FEES AND TOTAL REVENUE FOR 2018

	JAPAN EQUITIES	KOREA EQUITIES	HONG KONG EQUITIES	TAIWAN EQUITIES
LENDABLE	$920B	$151B	$455B	$72.5B
ON LOAN	$102B	$14.4B	$33.9B	$8.82B
FEES	76 bps	351 bps	124 bps	290 bps
REVENUE	$781M	$505M	$419M	$256M

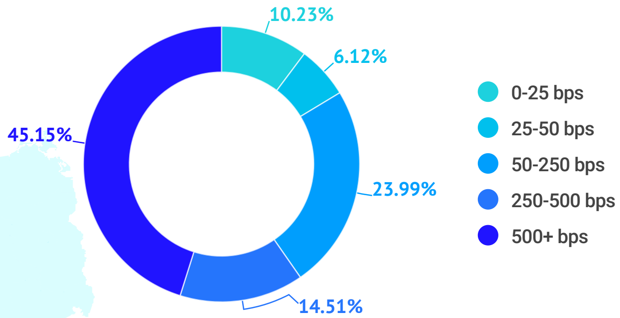
	AUSTRALIA EQUITIES	THAILAND EQUITIES	SINGAPORE EQUITIES	MALAYSIA EQUITIES
LENDABLE	$317B	$29.3B	$55.8B	$13.4B
ON LOAN	$20.8B	$1.69B	$2.24B	$642M
FEES	64 bps	219 bps	125 bps	368 bps
REVENUE	$133M	$37M	$28M	$24M

EMEA

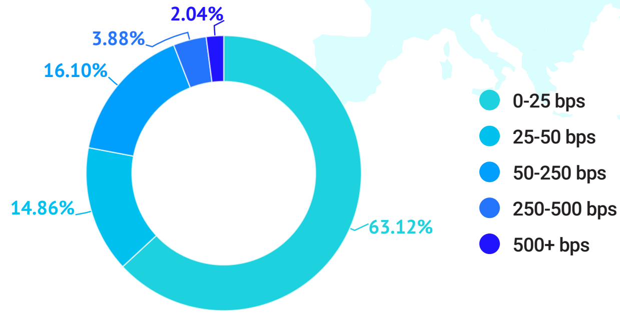
FIGURES ARE FROM JANUARY 1 TO DECEMBER 31, 2018, AND REPRESENT LENDER TO BROKER ACTIVITY ONLY

LENDABLE	ON LOAN	REVENUE	FEES
$4.82 Trillion	$635 Billion	$3.09 Billion	48 bps

EQUITY REVENUE BY FEE



FIXED INCOME REVENUE BY FEE



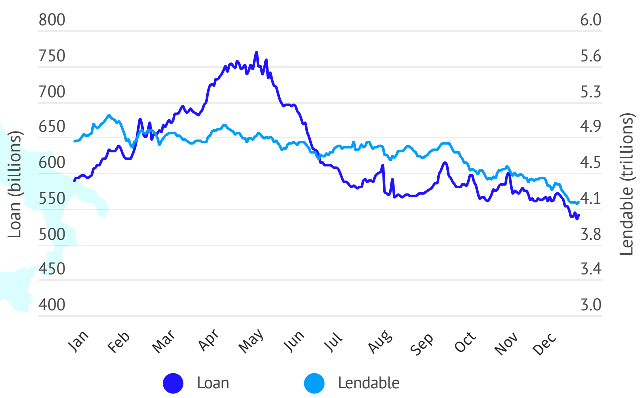
TOP EQUITY EARNERS

Security	Revenue
TOTAL	$79,480,616
KERING	$48,614,531
INTRUM AB	$33,182,745
HENNES & MAURITZ	$33,140,099
NORDEA BANK AB	$27,665,440
AXA	$26,428,582
BNP PARIBAS	$25,694,118
DANONE	$25,498,851
SANOFI	$25,172,779
TECNICAS REUNIDAS	$23,519,030

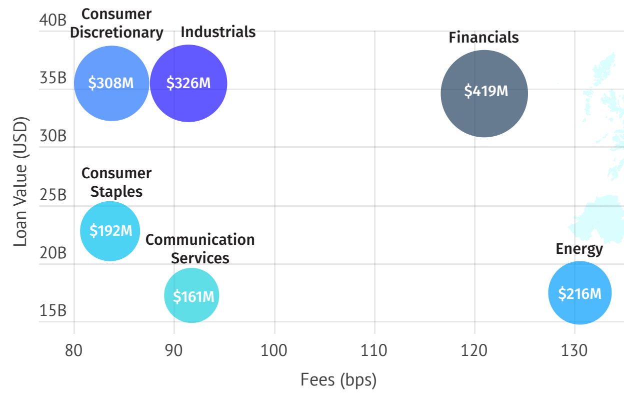
TOP CORPORATE DEBT EARNERS

Security	Revenue
ATCNA 7.625% 02/15/25	$5,070,482
ASTIM 7.125% 12/01/20	$4,713,910
TEREOS 4.125% 06/16/23	$3,745,936
MNK 4.75% 04/15/23	$3,595,144
ATCNA 7.25% 05/15/22	$3,200,322
FTI 0.875% 01/25/21	$2,887,909
MNK 5.625% 10/15/23	$2,326,806
ATCNA 6.25% 02/15/25	$1,726,302
MNK 5.75% 08/01/22	$1,467,644
ENIIM 0% 04/13/22	$1,371,396

ON LOAN VS LENDABLE



TOP SECTORS BY REVENUE



TOP 5 MARKET BREAKDOWN

AVERAGE LENDABLE, ON LOAN, FEES AND TOTAL REVENUE FOR 2018

EQUITIES

	FRANCE	NORDICS	GERMANY	UNITED KINGDOM	ITALY
LENDABLE	$420B	$303B	$350B	$818B	$119B
ON LOAN	$42.1B	$37.1B	$29.8B	$47.3B	$13.8B
FEES	127 bps	139 bps	99 bps	51 bps	103 bps
REVENUE	$546M	$511M	$295M	$243M	$143M

FIXED INCOME

	FRANCE	GERMANY	UNITED KINGDOM	NETHERLANDS	ITALY
LENDABLE	$301B	$257B	$400B	$180B	$123B
ON LOAN	$82.6B	$99.9B	$77.7B	$28.1B	$27.1B
FEES	21 bps	18 bps	17 bps	23 bps	21 bps
REVENUE	$177M	$176M	$131M	$63.8M	$56.4M

What Drives Demand in Specials?

By **Chris Benedict**, Product Specialist & Senior Analyst, DataLend

SECURITIES LENDING is a transaction between a borrower and a lender where the lender agrees to loan their shares of a security to a borrower for a period of time. The borrower gives collateral to the lender for the life of the loan and also pays the lender for the use of the securities. On the surface the transaction appears simple enough, but there are many reasons why institutions borrow securities. In this article DataLend examines the reasons why firms borrow securities, and some of the factors that can drive demand and make a security trade "special."

Directional shorting, or the belief that a company is temporarily overvalued in the cash market, is one of the most well-known examples of why firms borrow shares. A firm will temporarily borrow shares to execute a short sale with the intention of buying the shares back at a lower price. The "sell high, buy low" mentality has persisted in the blockchain and marijuana space over the last two years as investors feel the valuations in these industries may have gotten ahead of themselves.

Another major reason for securities lending is mergers and acquisitions activity. In most M&A deals, an investor will typically short the acquiring company and buy long the company being acquired. A recent example of this was Takeda Pharmaceuticals purchasing Shire PLC for $62 billion, the largest acquisition of a foreign company in Japan's history. In late November 2018, the fees to borrow Takeda were averaging in a "GC," or low fee to borrow, range. By early January this year, those fees had increased by 1,900% into the hot range, while utilization reached a peak of 88%. Once the deal had closed by mid-January, fees immediately dropped back down to their previous GC levels, while utilization plummeted to around 4% more recently. Takeda Pharmaceuticals alone generated $28.8 million in revenue for securities lenders last year.

Pairs trading is a strategy where two usually highly correlated companies in the same sector or industry appear to be temporarily mispriced. Traders will short the company that appears to be overvalued and buy long the company that may be undervalued. Classic examples of pairs trading include shorting Mastercard and buying Visa, or shorting Pepsi and buying Coca-Cola.

Statistical arbitrage trading, where a derivative such as an ETF may seem temporarily mispriced when compared to its underlying constituents, is another example. Traders may elect to short the ETF while going long the underlying constituents, or vice versa. Traders are able to glean incremental profits as the derivative and constituents trade in the cash market.

Similar to statistical arbitrage, cross-border arbitrage is still alive and well in today's market, where traders compare the price of foreign companies trading on an international exchange in the form of a depositary receipt versus the price of the common shares trading on a local exchange. Due to temporary price discrepancies, traders can eke out small gains shorting one and going long the other. This is also the case with convertible bond arbitrage, where a trader may short the common shares and buy long the bond knowing they are protected from a short squeeze with the conversion option on the bond.

Other reasons to borrow securities may be operationally driven, such as temporarily borrowing securities to cover a fail to deliver, which could lead to steep fines, headline risk or worse in certain markets. Regulatory pressures, such as the need to borrow high-quality liquid assets (HQLAs) as collateral to pledge for other activities, can also drive demand. Seasonal event activities may be another reason to borrow equities.

All of the reasons to borrow securities have one thing in common: cost. Borrowers need to compensate lenders for the temporary use of their securities. How much borrowers need to pay their lenders to access those securities is situational. Securities in high demand that command large fees to borrow are typically called "specials."

Supply is a key component of determining whether or not a company will trade special. Even if a company is facing significant economic headwinds or operational challenges, if there is enough supply available for short sellers to borrow, it won't necessarily trade special.

A good example of this was the intense selling pressure recently faced by Pacific Gas and Electric (PCG). In late 2018 it was alleged that PCG's equipment may have accidentally caused the deadliest and most destructive wildfires in California's history. These concerns, along with a very high debt load, a departing CEO, its removal from the S&P 500 index and subsequent filing for Chapter 11 bankruptcy in late January made this a very attractive and obvious short candidate.

Despite the bad news and the resulting brutal 86% drop in the stock's price from November 2018 to mid-January this year, the security never traded above 250 bps in the securities finance market for that period. PCG's utilization hit a peak of 24% around the time the company announced its Chapter 11 filing in late January and has since dropped back down to around 6% more recently. PCG never traded special because of the ample supply in the securities lending market: The total lendable supply is just short of 44 million shares, of which just under two million were out on loan recently.

Securities with low lendable supply are typically described as "hard to borrow" and are more prone to trading "special." Lendable supply is ultimately dictated by beneficial owners, who decide whether or not to make their securities under management available for lending. Beneficial owners elect to make their shares available to lend primarily to capture additional alpha with relatively low risk. However, some beneficial owners require a "hurdle rate," or minimum fee, before they will allow their securities to be lent out; unless that fee is met, the shares remain restricted.

Supply in the securities lending market can change or become "restricted," or not available to lend, for a number of reasons. One common reason is that a beneficial owner decides to sell a position in its portfolio. When this happens, the lender must then recall those shares from the borrower in order to deliver them for the client's sale in the cash market. The prime broker side must then try to locate the shares from another lender to keep its hedge fund client's position intact. If the security is in demand and is heavily utilized, supply from agent lenders may be exhausted, forcing the borrower to source the security from another borrower, often at fees higher than the traditional lender-to-broker market.

Beneficial owners may also recall shares to ensure they have the ability to vote shares on a corporate action or board change. Ultimately, when supply is very low or is declining due to the reasons mentioned and the right catalyst presents itself in the form of poor earnings, corporate events, unexpected news or other factors, a security can very quickly command high fees to borrow.

Of course, available supply in the securities lending market can also increase. New issues through secondary offerings can increase supply. Expiry of the "lock-up" period after an initial public offering, allowing insiders to sell shares, may also

increase supply as beneficial owners may purchase those shares and in turn lend them out. Finally, as shares trade in the cash markets, investors or beneficial owners not participating in securities lending may sell shares to entities that are, thus increasing available supply in the securities finance market.

TO FURTHER EXAMINE the relationship between supply and securities trading special, DataLend reviewed the universe of equities on loan in 2017 and 2018 globally and regionally to see if there were any differences in volume-weighted average fees by market capitalization. Some fairly significant differences emerged, as depicted in Figures 1 and 2.

As we can see for both 2017 and 2018, there is a clear delineation in the fees to borrow global mid versus small cap equities and again in small versus micro or nano cap equities. There is also a difference between the fees to borrow mega and large cap names, although less pronounced.

A similar pattern exists across equities from a regional perspective. For example, in the more thinly traded Asia markets, the various market cap fee bands appear to trade somewhat hotter than the overall global averages. In EMEA the pattern repeats itself, although the mega and large cap companies may have higher volume-weighted average fees than the rest of the world due to the busy corporate events season in the spring. Finally, in North America, the pattern is observed again with a more pronounced difference in fees to borrow small versus micro or nano cap equities. Securities such as Synergy Pharmaceuticals, Zion Oil and Gas, Riot Blockchain, NXT-ID, Net Element, DPW Holdings and others traded very special last year, generating millions of dollars in revenue while helping to push the fee averages in the North American micro and nano cap spaces for 2018 higher than in other regions.

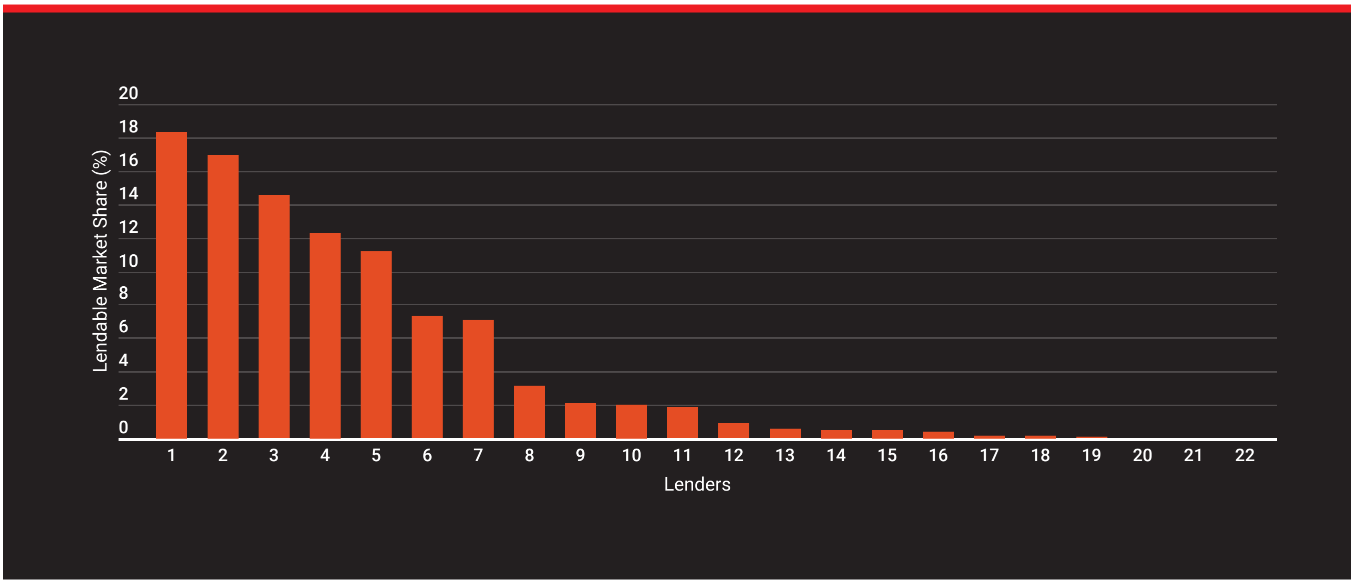
Before the advent of securities finance trading and market data services, determining supply in the securities lending market was challenging and time consuming, involving many phone calls to various agent lenders trying to locate the desired securities, followed by negotiating various trade parameters. Now, with EquiLend's NGT, borrowers can send needs lists to their counterparties with the click of a button. Lenders can send their entire list of available supply and desired rates to all of their counterparties just as easily.

From a market data perspective, the concentration histogram in DataLend's Security Search screen is an excellent tool for viewing the depth and breadth of supply of a security in the securities lending marketplace, showing the number of firms lending the security, the number of borrowers borrowing the name and the number of firms with lendable inventory in the security (including those firms with inventory but not currently lending). Trending information can also show supply changes over time, from total lendable, which may increase or decline for the reasons previously mentioned, as well as demand statistics as borrowers initiate (or close out) short positions. These tools help making finding lendable supply—and anticipating what might trade "special"—easier than ever before. ▲

FIGURE 1: VOLUME-WEIGHTED AVERAGE FEES BY MARKET CAP, GLOBAL EQUITIES, 2017 AND 2018

Market Capitalization	VWAF (in bps) 2017	VWAF (in bps) 2018
Mega	14.47	14.69
Large	45.31	46.1
Mid	63.26	62.04
Small	207.25	159.51
Nano/Micro	629.89	599.62

FIGURE 2: LENDER CONCENTRATION FOR TICKER TSLA ON A TYPICAL TRADING DAY IN 2019



DATALEND: BEHIND THE SCENES

By **Matt Ross,** Product Specialist, DataLend

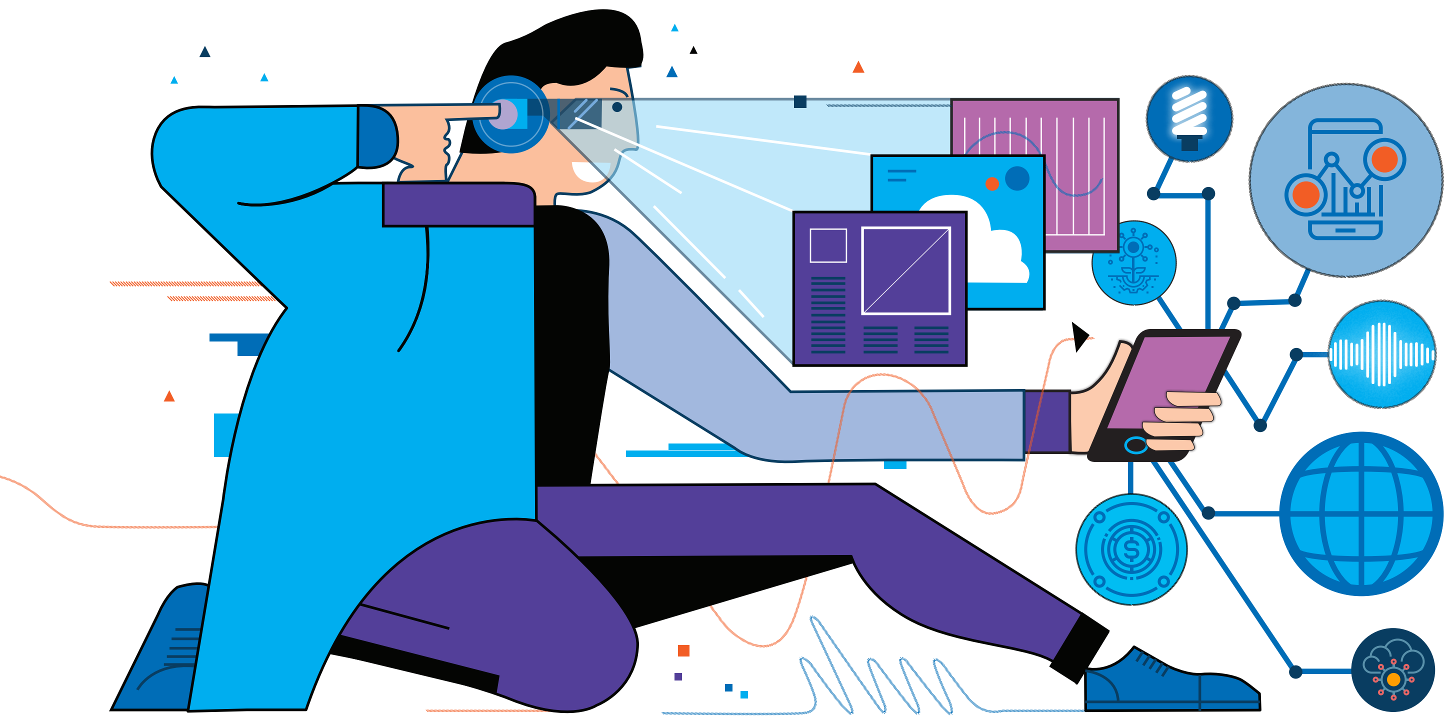
ON THE SURFACE, DataLend may seem like a fairly straightforward product: The system takes in some data from users and returns some data to users. However, when you look under the hood you quickly realize that processing and distributing this data is no easy task. DataLend has been built up over the last six years to include many complex processes, rules and algorithms to ensure the dataset is the cleanest, most accurate and most complete dataset in the securities finance industry.

How are "fat fingered" trades identified and segregated so they don't impact overall loan balances or fees? How is each user firm reviewed to ensure they are sending in accurate and complete data? What data cleansing algorithms and other processes are in place to deliver information to our clients quickly and accurately? Read on to find out as we answer these questions and more (without giving away the full recipe to the secret sauce, of course)!

On average, DataLend processes over eight million records per day when looking across all outstanding loan and availability records submitted by our clients globally. Ensuring that all of that data is processed, cleansed, aggregated, anonymized and available in a meaningful and timely manner by the time users log in each morning and throughout the day requires the resources and coordination of multiple teams and individuals within the EquiLend organization. These include:

DataLend Product Specialists: The front line of DataLend, the product specialists work directly with clients to demonstrate the tools available within the suite of DataLend products and gather feedback to build requirements and develop a roadmap for future product enhancements. Product specialists have a hand in every facet of the product. They also help to design and test data processing and cleansing algorithms while keeping a keen eye on market events globally.

DataLend Engineers: The brains behind DataLend, the engineering team writes all of the code that builds the DataLend products, processes daily client files, manages the front-end



Web design and handles all the steps in between. They work closely with the product specialist team to ensure that user requirements are fulfilled.

DataLend Database Administrators (DBAs): The logistical masterminds of DataLend, the DBAs determine how and where the data will be stored and the fastest and most reliable ways to access the data. They are also responsible for sourcing all of our third-party vendor data, such as security reference data, which is used to further enrich the DataLend data set.

DataLend Quality Assurance (QA): The "devil is in the details" team for DataLend, the QA team makes sure that for every change or enhancement made to the system, something else isn't broken. They help ensure that users have a smooth and enjoyable experience while using DataLend by testing every nook and cranny in the system.

DataLend Client Services: The support center for DataLend, the client services team is here to help with everything from onboarding clients to answering client calls when they are having trouble accessing the system.

With each team's roles and responsibilities defined, the fun can begin, and the focus can turn to the most important thing: our clients! In addition to ensuring DataLend meets and exceeds the needs of our clients, we also ensure that we are seeing a client's entire book.

When onboarding new clients to DataLend, experts from both the Product Specialist and Client Services teams are assigned to not only assist the clients with the technical aspects of how and when to share their data, but also to ensure that the data is complete, accurate and contains all of the necessary fields used to generate the resulting data set.

DataLend takes great pride in the quality of data delivered to our clients, and that's why clients are required to include as part of their inbound contract file the counterparty with whom they are trading. This piece of information is not only crucial to DataLend's deduplication logic, which ensures that only one side of every transaction is counted, but it also ensures that clients are submitting all of their trades by doing comparisons across each organization to determine if both sides of a given transaction are received. This information also helps us to display to end users when they have loans with specific counterparties may have rebate rates or fees away from current market conditions, enabling them to seek rate relief or rerate opportunities.

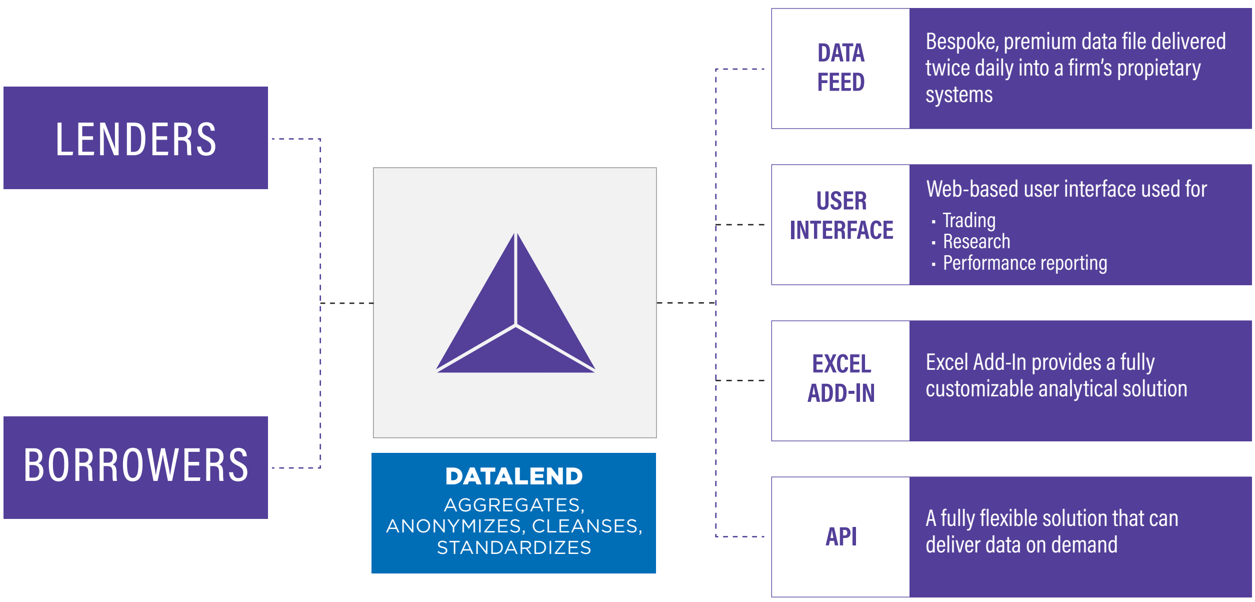
Upon receiving data from a new client, the onboarding teams must then understand the logic needed to interpret the data as no two client files are the same. There can be differences in file structures, types, available data points in each file and other data challenges. Once that business logic is determined, it is handed over to the Engineering team, which writes custom code for every client's file that is processed to ensure all aspects of each and every trade are accurately captured.

Once the onboarding process is complete and we are processing a daily open contracts file (and an availability file for agent lenders), multiple lines of defense are put in place to ensure that bad data is identified and removed from the system. Our Client Services team is the first into action if there are any missing files. They will receive an automated alert if a file from a client has not been received at the usual scheduled time. When this occurs, they will collaborate directly with the IT support team at the applicable firm to identify and rectify the issue.

After the client file is received, multiple checks are run on the file itself. Has the physical size of the file changed by a noticeable amount? Has there been a statistically significant change in the number of records or has the notional value of the file changed materially? If any of these scenarios are encountered, the Product Specialist team is notified and reaches out directly to the front office and IT teams of the submitting firm to determine if these changes are valid. If they are not, the team works with the submitting firm to resolve the issue immediately.

After a file makes it through the first line of defense in our system, it is then time to validate the content of the file row by row. Each transaction is scrutinized to ensure that there are no suspicious entries in the file. Many transaction-level checks occur, with each one designed to ensure our data set is accurate and represents the true nature of the securities lending market. There are the simple ones to ensure a transaction can be processed, such as determining if a mandatory field is missing or invalid. But the real fun begins when we try to identify those pesky fat-fingered trades or mispriced transactions.

Our custom algorithms will analyze recent trading patterns for a given security and determine what an acceptable range



is for fees and rates for new transactions. If a fee or rate falls outside of that range, that trade is removed from our resulting volume-weighted average fee calculations. Third-party data is also employed to track recent and upcoming corporate events in order to properly detect and segregate trades that may be impacted due to these events.

Beyond those checks, DataLend employs a variety of other algorithms and business logic to ultimately produce the cleanest and most accurate set of transactions and availability records used in our final result set. Once all outlier checks and transaction validations are complete, DataLend begins the process of aggregating and anonymizing the data so it can be consumed by our clients to truly understand where a security is trading in the securities finance market, and perhaps equally as importantly, for a client to determine how their firm is positioned.

It is important that DataLend users have the flexibility to ingest the data in a way that is most beneficial to them. That is why there are myriad routes to market with DataLend data.

Users can access the Web-based user interface to do in-depth analysis on individual securities, or they can view macro-level trends across various asset classes, sectors, countries and regions to see how the industry is reacting to the latest news. Users can also create customized reports sent every morning in Excel files from the Research Reports screen.

Daily data feeds are retrieved, processed and stored by client proprietary systems at the individual security level or at the security, dividend rate and currency level. The new DataLend API allows users the most flexibility, enabling them to pull down the precise data points they require for any security across two years' worth of history. Finally, the Excel Add-In tool allows users to import DataLend data alongside their own proprietary information.

DataLend wants our users to get the most value out of the data as possible, and the team is always thinking of new ways to deliver the data in a fast and efficient manner.

Based on the hard work of multiple teams throughout our organization, and especially due to constructive client feedback, DataLend has been able to deliver a valuable and award-winning service to securities finance market participants for the past six years. Let us know what you'd like to see developed next! ▲

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LENDABLE

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TRILLION
ON LOAN

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UNIQUE
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CLIENT PERFORMANCE REPORTING	CPR enables agent lenders to optimize their lending programs, featuring standardized performance measurement, flexible but DataLend-controlled peer groups and unique and exclusive data.
THE PULSE	The Pulse—Precision Analytics Powered by DataLend—offers unparalleled insight into your NGT trading activity through an intuitive, simple-to-use Web portal.
DATALEND PORTFOLIO	Whether you have a single- or multi-agent securities lending program, your single login to DataLend Portfolio will provide you with an aggregated view of your securities lending activity.
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SECURITIES LENDING 101: UNDERSTANDING MARKET METRICS

By **Tom Ashton,** Product Specialist, DataLend

WE SPELL OUT OUR METRICS, HOW WE CALCULATE THEM AND WHAT THEY MEAN FOR THE SECURITIES FINANCE AND CASH MARKETS.

WITH the introduction of specialized market data providers such as DataLend, monitoring metrics on a daily basis has become a critical task for participants in the securities finance market. A variety of important metrics available via the DataLend platform can help clients form opinions on current market trends, including:

ON LOAN AND LENDABLE

Probably two of the most common metrics associated with securities lending are on loan, the total amount of a security currently loaned out in the market, and lendable, the total gross inventory of a security. Both of these can be reviewed in terms of value or quantity, and together they are often used as a cornerstone when calculating other data points, such as utilization and days to cover.

As of April 1, 2019, DataLend tracked approximately \$2.3 trillion worth of securities on loan and \$19.9 trillion in lendable across the global securities finance market. DataLend has observed the total lendable trend steadily upward over the last few years, which in turn has led to increased global revenue, as noted by DataLend's announcement in January of a record year in 2018.

VOLUME-WEIGHTED AVERAGED FEES (VWAF)

The fee (or rate) is a fee charged by a lender to a counterpart for borrowing securities. The fee depends on the difficulty of borrowing a security—the more difficult it is to borrow, the higher the fee. The borrower must provide collateral back to the lender in the form of cash or securities.

DataLend calculates a range of volume-weighted average fees to give traders a view of how a security is being priced or how it has changed over time. For example, Fee All is calculated based on all open transactions, whereas Fee 10 only takes into account those transactions that have taken place in the preceding 10 days. Generally, the VWAF is calculated by summing the value of each transaction (loan value multiplied by the fee) and dividing by the total loan value.

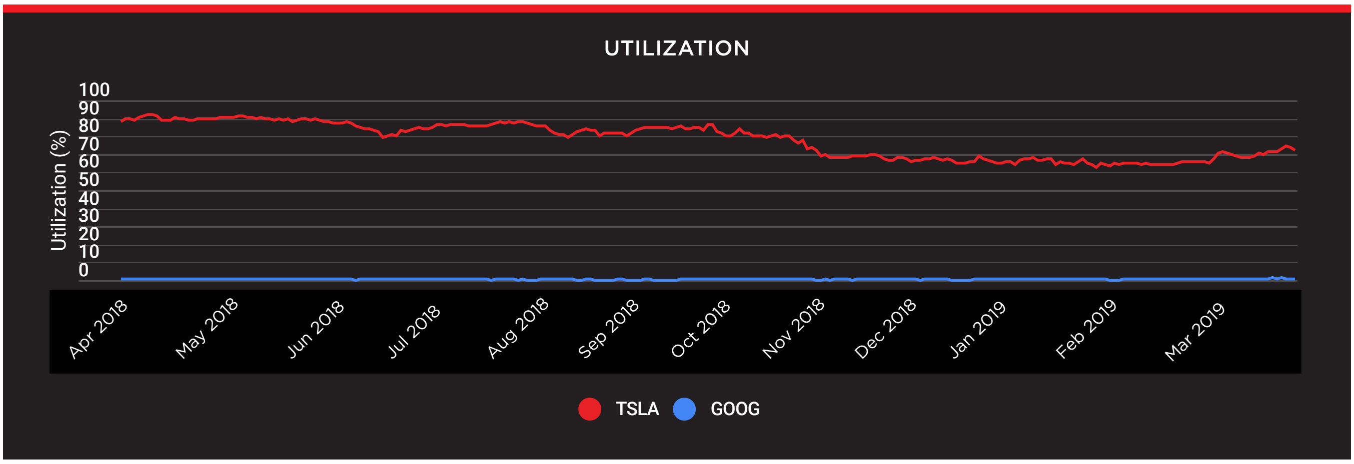
$$VWAF = \frac{\sum (\text{Loan Value x Fee})}{\sum \text{ Loan Value}}$$

UTILIZATION

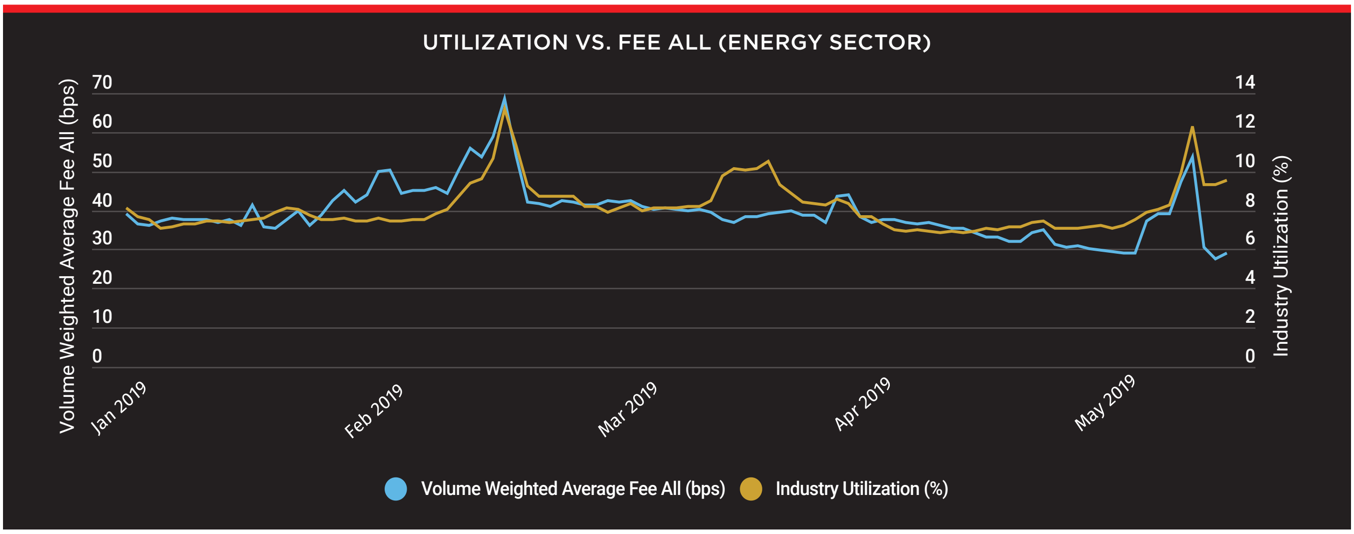
Utilization is defined as the ratio of the on-loan quantity divided by the total gross inventory value of the security. The utilization metric in DataLend is based solely on the lender-to-broker market data provided by our clients and is one of the most critical and often-viewed metrics in the industry.

$$Utilization = \frac{\text{Total On Loan Quantity}}{\text{Total Gross Inventory Quantity}}$$

Utilization can also be more easily understood as a ratio of demand versus supply. For example, as depicted in the graph below, Alphabet Inc. (GOOG) typically has a utilization of less than 1%, because the stock has a high market capitalization and vast lendable balance relative to the demand to borrow shares for shorting or other purposes. On the other hand, Tesla Inc. (TSLA) may have a much higher utilization because of its lower market capitalization and higher demand to short compared to the number of lendable shares.



An increase in utilization can also suggest an increase in demand of a security, which in turn can see an increase in the fees charged to borrow. You can see in the below chart for the Energy sector that over the course of 12 months the general trend in fees matches the flow of utilization.



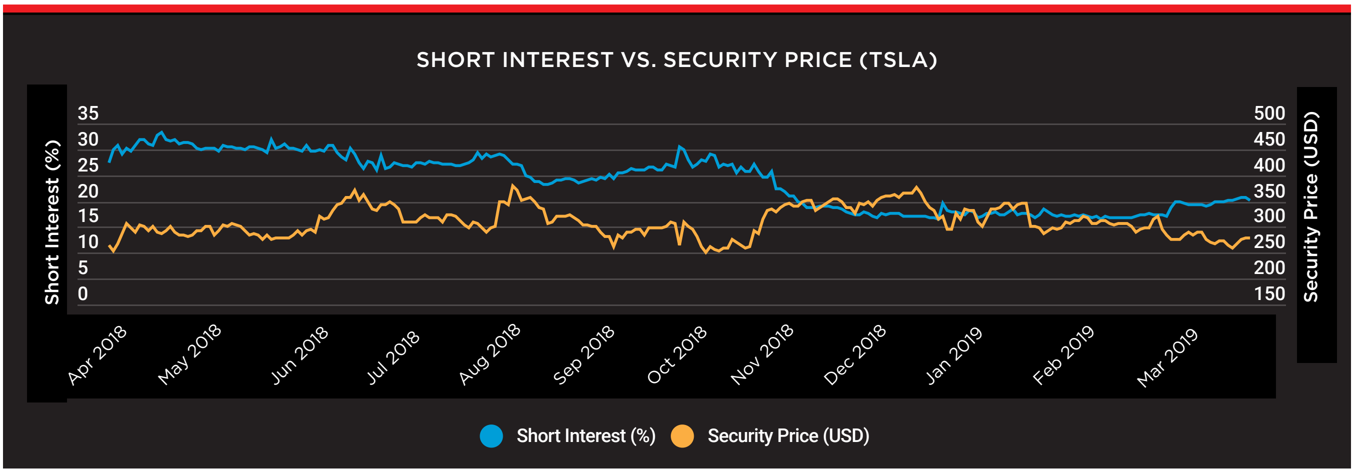
SHORT INTEREST

Another important demand metric is short interest. DataLend defines the short interest by representing the on-loan quantity as a percentage of the publicly available float (free float). Or, to put it another way, the higher the short interest, the more demand there is to borrow a particular security. Unlike other sources, DataLend calculates the short interest on a daily basis, providing an up-to-date source of such data, whereas other sources may only publish this metric twice a month.

$$\textit{Short Interest (\%)} = \frac{\text{On Loan Quantity}}{\text{Publicly Available Float}} \times 100$$

Short interest can be used as an indicator of market sentiment: A very high short interest indicates investors are pessimistic, potentially overly so, which in turn could lead to a very sharp price rise in the form of a short squeeze given the right catalyst. Large changes in the short interest can also be used as warning signs that the market may be turning bearish or bullish on a given security.

This theory can be corroborated by studying the stock price and short interest percentage for TSLA over the last 12 months and noticing how the two rise and fall out of phase. In October 2018, Tesla's CEO Elon Musk settled with the SEC over allegations of fraud relating to tweets made earlier in the year, which caused the security price to increase sharply. Short sellers covered, reducing the on-loan quantity, and as a result the short interest in Tesla dropped.



DAYS TO COVER

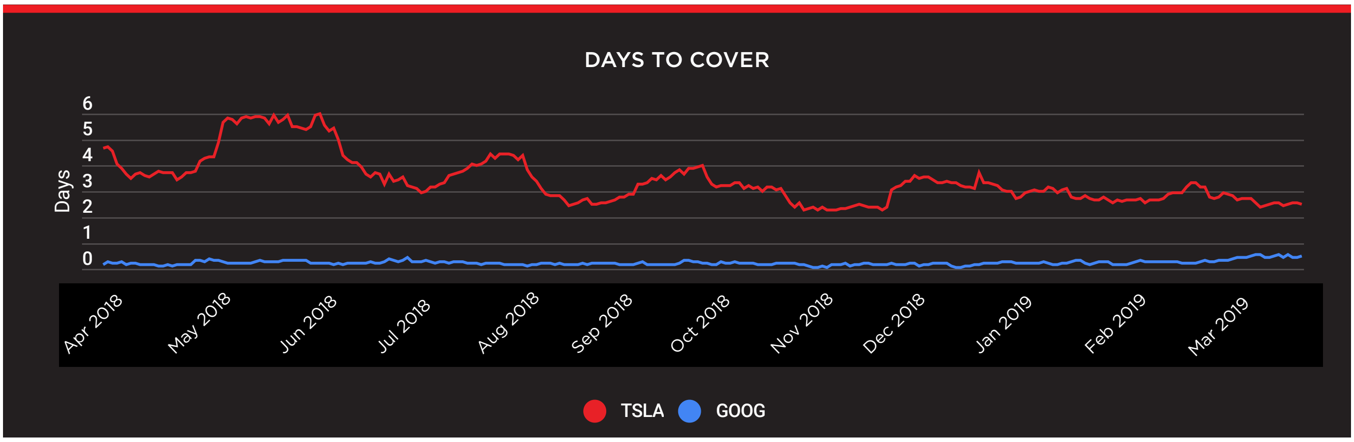
The days to cover metric attempts to measure the number of days it may take to cover a short position. Days to cover is used by traders primarily as a short squeeze indicator. A short squeeze may occur in a heavily shorted, thinly traded security that has had unexpected positive news or buying activity. This activity may trigger the short sellers to cover their positions. The higher the days to cover, the more difficult it may be to cover a short position without paying higher prices to buy the security back.

DataLend calculates days to cover by comparing the loan quantity of a particular security against the average trading volume over the last 30 days.

$$\textit{Days to Cover} = \frac{\text{On Loan Quantity}}{\text{30 Day Average Trading Volume}}$$

For example, if a company has a 30-day average volume of 1 million shares trading in the cash markets, and 2 million shares are currently on loan in the securities finance market, the shares have a cover rate of two days. Days to cover is also often referred to as the short-interest ratio. For more information on this dynamic, refer to “Short Meets Long: When Securities Lending Data Illuminates Market Sentiment” in Issue 3 of *The Purple*. Put simply, the longer the buyback process takes as referenced by the days to cover metric, the longer the price rally may continue based solely on the need of short sellers to close their positions.

Sticking with the TSLA and GOOG examples, throughout 2018 it would have taken less than a day to cover off any GOOG shorts; however, at its peak, TSLA would have taken close to a week. The rises and falls in days to cover in August and October, respectively, also coincide with Musk’s tweets and later settlement with the SEC.



As utilization, short interest and days to cover fluctuate, these and other metrics may reflect growing demand to borrow a security. As that demand grows and lendable supply dwindles, the security may trade “special.” For more information on specials, see “What Drives Demand in Specials?” in this issue of *The Purple*.

A LITTLE IS GOOD, MORE MUST BE BETTER

All of the metrics described can be extrapolated and applied to industries, sectors, asset classes, countries and even regional levels. This is where DataLend’s Macro Analyzer becomes an invaluable tool for traders and analysts alike: The ability to cut and slice DataLend’s vast warehouse of securities finance data across multiple parameters is as simple as a couple of mouse clicks.

Combining metrics such as utilization, days to cover and short interest percentages with the more familiar data points used in the securities lending industry gives greater insight and allows market participants to form a broader picture of the current market sentiment from the security level all the way through to the entire $2.3 trillion global securities finance market. ▲

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JAPAN'S NEW ERA

By **Yuka Hasumi,** Vice President, Sales, EquiLend Asia

IT IS A TIME OF CHANGE in Japan as Emperor Akihito abdicates his position, the first to do so in over 200 years. As Japan enters the "Reiwa" Era, it continues to be a powerhouse in the Asia region from a political, technological and economic position.

In the finance markets, Japan at times tends not to attract the level of attention that its securities lending market potentially deserves. Despite being the biggest single securities lending market in Asia from a revenue perspective, it often takes a backseat in the news over hotter markets that have higher fees and greater year-over-year revenue increases.

While markets such as South Korea and Hong Kong dominate the headlines and interest from hedge funds, Japan continues to provide the securities lending market with opportunities through its depth of assets and market participants, both domestic and international. Alliances with regional exchanges in Asia provide further access and integration into Asia, reducing systematic risk. And as host of the 2020 PASLA conference, all eyes will be back on Tokyo in the coming year in the securities finance market.

In 2018, Japan represented 53% of the regional loan balance with an average on-loan value of $117.17 billion across both equities and fixed income, and the market accounted for 35% of revenue earned by lenders across the entire region in 2018, with $778.4 million.

In the broader securities markets, further changes are underway. The big news for Japanese stock markets this year is the pending operational shift from a T+3 to a T+2 (two days after a transaction) settlement cycle. It is the second chapter in a series of settlement reforms to enhance the market's international competitiveness and increase trading efficiency. The reduced settlement cycle, in line with other major global markets such as the EU and the U.S., is expected to promote increased liquidity in the market, reduce operational and systemic risks and assist counterparties in avoiding trade failures. A further development would be the possible launch of a central counterparty (CCP) model in Japan, although discussions are in the early stages.

Furthermore, firms active in Japan are embracing technology more than ever. The take-up of automated trading platforms by key participants in the Japanese markets has promoted further economic development in the market. As for the securities finance market, EquiLend's NGT trading platform, Post-Trade Suite and variety of DataLend products have seen steady interest and increasing adoption and use in Japan.

Much like its cash trading markets, Japan's securities finance market comprises both onshore (domestic) and offshore (international) participants—securities houses, trust banks, asset managers, life insurance companies, brokerage firms, custodians and online brokers.

The number and size of new entrants entering the market has grown substantially in recent years, along with holdings, and cross-border relations have improved.

The market continues to be an integral part of alternative investment strategies for domestic firms, and a leading revenue driver in the region. Furthermore, the cost of funding for local participants accepting Yen collateral provides an advantage for many on the brokerage side.

The compelling aspect of the onshore market that continues to see growth is the participation and increasing market share of retail, or online brokers, which, due to the nature of their underlying clients and growth, are able to provide access to the mid, small and micro cap equity names that so many hedge funds are searching for.

In recent years we have seen new participants enter the securities finance ring to provide access to their holdings and capture additional alpha for their clients. As a result, and given that revenue from lending Japanese equities increased an impressive 30% in 2018 versus 2017, growth and interest in the market should remain robust and perhaps increase in 2019.

With the market developments, technology adoption and growth of the securities finance market, Japan looks to be back in focus for market participants in Asia. ▲

MILA

AND THE OUTLOOK FOR LATIN AMERICAN LENDING

While it is still early days, looking ahead, the Mercados Integrados Latinoamericanos (MILA) market association could ultimately play a significant role in the long-term unification of securities lending across the region

TO ADDRESS the scale, expense and liquidity issues that have often hampered Latin American countries, the Mercados Integrados Latinoamericanos (MILA) was launched in 2011, connecting the CSDs and financial exchanges of Chile, Peru, Colombia and, in 2014, Mexico. An outgrowth of the overarching Pacific Alliance, MILA has continually worked to hone best practices, harmonize the exchange of inter-market data and facilitate multi-exchange stock listings as well as other efforts aimed at improved efficiency and liquidity. MILA has been responsible for boosting capitalization through increased trading volume across its member nations, and today, MILA exchanges lead the region in total listed securities, rank second in combined market capitalization and third in overall volume.

MILA and SBL

Ongoing integration efforts—which have included, among other things, the availability of sophisticated trading tools on a cross-border basis—have laid the groundwork for

regulatory harmonization of equities trading and custody throughout the MILA network.

With foreign investment integral to regional liquidity, part of the discussion continues to center on developing more investor-friendly standards, including strategies for expanding securities borrowing and lending (SBL) within Latin America.

Mexico notwithstanding, using securities finance to bolster liquidity and trading volumes has been a relatively recent development in parts of the region, and since each country has a unique economic and regulatory footprint (in Mexico, for instance, pension fund owners are restricted to fixed income loans only), securities lending models tend to work best internally, rather than cross-border.

Still, trends suggest a market conducive to lending is ahead. Last year, Argentinian regulators gave the green light to an on-exchange securities lending program, while in Peru changes to that country's nearly 20-year-old lending platform included enhanced short-selling best practices as a way of attracting foreign investment while boosting market liquidity. Similarly, efforts to streamline lending in Brazil have resulted in ongoing consultations with regulators in both the U.S. and EU. Finally, as part of the effort to meet demand for borrowed securities, Mexico recently unveiled its newest exchange, the Bolsa Institucional de Valores (BIVA), which is expected to help attract additional foreign capital to the region.

Some participants are looking to new solutions as a way of making cross-border transactions more feasible. Indeed, proponents see MILA playing a potentially significant role in expanding access to blockchain and other new technologies across the network, increasing capital inventories in the process.

Yet another way to move the needle is to have streamlined agreements that allow regional brokers to borrow from one another as needed. For example, if a broker has a good relationship in Mexico but would like to obtain loaned securities elsewhere, with a specialized agreement, one could streamline the process on behalf of the counterpart that is handling the trade.

All Together...How?

As activity through the MILA network has mainly been limited to secondary trading, at present the association accounts for just a fraction of the region's total equities valuation. Then again, MILA has always been a long-term proposition, and much of its potential lies ahead.

But MILA is only part of the integration equation. What other strategies could help advance the cause of regional unity?

» Increasing broker-dealer participation is pivotal, as is the creation of a universally recognized set of tax laws

» Addressing intra-MILA barriers might also include enhanced remote access for brokers as a way of mitigating counterparty credit risk and reducing transactional expense, as well as a standardized protocol for region-wide settlement, issuance and clearing activity

» From there, market heads could work toward achieving regulatory parity around pension fund assets, including tax treatment, risk assessment, foreign-allocation limits and other factors

With respect to lending, the biggest obstacle is lack of process uniformity. In countries like Chile, Colombia and Mexico, separate—and in some instances radically different—securities lending models are used, making harmonization all the more challenging. While separate lending practices are likely to persist at least over the short term, participants nonetheless continue to seek more streamlined processes where possible. Transparency remains a priority; earlier this year, the RMA established a working group for the purpose of encouraging greater visibility into and development of securities finance within the Latin American region, including strategies aimed at boosting foreign participation and improving dialogue between industry leaders and regulators.

While acknowledging the need for a more granular approach to regulatory alignment, rules need not be identical, notes the Inter-American Development Bank (IDB) in its recent paper "Financial Integration in the Pacific Alliance," but rather a "harmonization of objectives and substance" on a region-wide basis. This in turn would lead to greater efficiency through enhanced investor protections, increased local competition, as well as faster transactional processes, according to the research.

Today global players are expanding their presence in the likes of São Paulo and Bogota in order to directly connect asset owners with prospective managers, while also looking for new opportunities in the making. Going forward, the sustained interest in Latin America among foreign investors, as well as continued cooperation between regulators and industry heads, is expected to advance the cause of SBL within the region, albeit at a slower pace relative to more developed areas.

Underscoring the importance of aligning issuers, investors and trading protocols under MILA, the Pacific Alliance recently noted how "financial integration will permit developing more and better investment projects of high quality, including in infrastructure, to support development in the region."

Accordingly, a concerted effort by MILA to continue fostering a unified approach to regional securities finance will be key to maintaining the current momentum. ▲

This article is reprinted from EquiLend and RMA's Latin America Securities Finance User Guide 2019. To access the full guide, please visit equilend.com.

A DAY IN THE LIFE OF

ANDREW DYSON

CEO, International Securities Lending Association

The Purple chats with Andrew Dyson about life inside and outside work at the helm of the International Securities Lending Association.

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

I joined ISLA in 2013 and took over as chief executive in mid-2016. During this time, much of what we do as an association, as well as individuals, has changed out of all recognition. Trying to describe a typical day is quite difficult as each one can be very different. As we are still a very small organization, flexibility and adaptability are key. A typical day might involve detailed discussions with key regulators and policymakers across Europe as we develop our advocacy efforts around the importance of securities lending to the broader capital markets ecosystem.

More recently, I took that message to Jordan as part of our strategic objective to help with the implementation of a fully functional securities lending infrastructure in less developed or emerging markets. In addition to leading our advocacy efforts, my day also includes working actively with the rest of the team in London around their own specific responsibilities. This may include joining meetings to discuss specific responses to regulatory consultations, thinking more broadly about the future of digitalization and CDMs, as well as our outreach capabilities through the website, the press, social media or our various conferences and regional events. You can see from this, my days are often varied and rarely the same.

What is the biggest challenge you face in your position?

This is a very interesting question. I would answer that in a number of ways. First and perhaps inevitably, we simply don't have the limitless resources we would like in order to deliver on all of the things members would like from us. Consequently, prioritization and trying to do what is best for the membership and the broader industry is always a challenge. Secondly, as we do more and deliver increasingly relevant outputs, the demands become greater. We effectively become victims of our own success. Having said that, neither are bad problems to have as they indicate that members value what we do for them.

What initiatives are you spearheading at ISLA?

I have now organized our business around four core pillars, with individual senior members of the team managing Regulatory/Technical, Legal Services and Communications/Events, respectively. I oversee Advocacy.

Therefore, much of the day-to-day control of these areas resides with each of them. This allows me time to think more broadly about our advocacy efforts. In this regard, I am thinking about how we need to position ISLA ahead of the new European Parliament and Commission later this year, and what key messages we want to convey to new MEPs and officials at the Commission. In addition, I am also working with a small group of member firms to look specifically at what, as an industry, we can do to help with the development of a securities lending market across the Middle East.

Also, and perhaps inevitably, I am also thinking about how ISLA may have to respond to a post-Brexit landscape and what that may mean for our member firms, and how we best support them in the future.

What is your proudest moment on the job?

We have done so many positive things during my tenure at ISLA, so picking a particular moment or event is difficult. Recently, the establishment of our core senior management team is something I have wanted to do for some time, and in my view, creates a viable and robust management structure that is a firm foundation for the future. Also, I am always proud on the first day of our annual conference. To see most of the industry gather around ISLA each year does generate a feeling of pride and acknowledgement that we must be doing something right to maintain this level of attendance and support.

PRAIA DO CAMILO ON THE COAST OF THE ALGARVE REGION, PORTUGAL

What do you do in your spare time?

When not thinking about securities lending, I am a keen supporter of Brighton & Hove Albion, a lesser-known Premier League soccer team. I drive an old 1965 MG sports car, and run around after our dog, which demands many walks. Luckily, I live near the coast, which makes the dog walking less onerous! Unlike many here in the U.K., I am in fact a pro-European, and spend as much spare time as I can in Portugal, where we own a small property in the south of the country.

What is the best advice you have ever received?

Apart from the routine advice to watch and learn from both your elders and more experienced colleagues, etc., the most telling and compelling piece of advice I have had was to think carefully about how the recipient of a message you are about to deliver will react to that piece of information. Too few many people understand the potential impact of what they are about to say, and we all need to think more before we speak.

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