



Minutes

Securities Lending Committee

27 February 2020

Location: 10 Fenchurch Avenue, London, EC3M 5AG

Attendees: State Street

ISLA

Citi

ICMA

Clifford Chance

HSBC

Goldman Sachs

Norges Investment Management

Aberdeen Standard Investments

Aviva Investors

M&G plc

M&G plc

BNY Mellon

BlackRock

DMO (Observer)

FCA (Observer)

Alex Lawton

Andrew Dyson

Andy Krangel

Godfried De Vidts

Habib Motani

Jamie Anderson

Johanne Armita

Matthew Brunette

Matthew Chessum

Mick Chadwick

Nina Moylett

Simon Dunderdale

Stefan Ahlner

Tim Mcleod

Jack Skinner

Alan Barnes

BoE

BoE

Jon Pyzer

Paul Alexander (secretary)

Apologies: Citadel

Morgan Stanley

DMO

BoE

Timothy Tomalin-Reeves

Krishan Chada

Jessica Pulay

Bianca Ginelli Nardi (secretary)

**Minute
no.**

1. Introductory remarks

The Chair noted Jamie Smith's retirement from Lloyds and thanked him for his contribution to the Committee.

It was also confirmed that the November 2019 SLC minutes were published on the Bank's website.

2. Recent market trends and observations

The Chair invited the ISLA representative to provide an update on recent market developments.

It was noted that COVID-19 was likely to have a big impact on the securities lending market but it was too early to say exactly how and which areas would be impacted most.

ISLA updated on the size and composition of the securities lending market based on the most recent semi-annual market survey. As at 31 December 2019, the value of all securities made available by institutional investors was €21 trillion, with approximately €2.3 trillion out on-loan at any one time.

Government bond lending experienced spill-overs from liquidity issues in US repo markets in the second half of the year, with price volatility spiking rebate rates in US and European markets in mid-September.

Overall, government bond lending represented 46% of all securities on-loan globally with the potential for this to increase given implementation of uncleared margin rules (UMR) later in the year. Equities lending continues to comprise up to 80% of revenue in securities lending markets although this could change following the introduction UMR.

ISLA set out four drivers of the securities lending market in 2020.

- a. Environmental, Social and Governance (ESG) - which continues to gain momentum and remains a key focus for the industry.
- b. Securities Financing Transactions Regulation (SFTR) - which is progressing well with the industry mobilising considerable resources ahead of go-live in April 2020.
- c. Central Securities Depositories Regulation (CSDR) – which is expected to drive change in market-wide behaviours (e.g. settlement discipline).
- d. Uncleared Margin Rules (UMR) – which is expected to increase securities lending volumes as the number of affected firms increases.

One member noted that buy-side funds were likely to play more of a role in securities lending markets in 2020 and expected further competitive pressure on haircuts as a result. Another noted the increased presence of automated trading on the market.

It was also noted that three large new securities lending trade associations had formed recently; including the London Chapter of the Women in Securities Finance industry group and the Global Peer Financing Association (GFPA) in the US, which is seeking to create a more efficient way of engaging in peer-to-peer (P2P) securities lending.

3. Update on the Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR)

The Chair provided a brief update on recent SFTR and CSDR developments.

Members agreed that the vast majority of market participants would be ready to undertake SFTR reporting ahead of any final deadline but strong change management will be important to ensuring the submission of high-quality data. Significant investment had been undertaken to reach this stage.

Members noted greater uncertainty around CSDR implementation. And compared to SFTR, CSDR was expected to have a much greater impact on the behaviour of market participants. As such, the risk of unintended consequences was said to be greater. One member noted that CSDR might require changes to existing Standard Settlement Instructions (SSIs) which would likely result in another large repapering exercise. The

Committee also discussed potential alternatives to mandatory buy-in rules, including larger fines.

Separately, members noted the uncertainty around CSDR in a post-Brexit environment.

4. Impact of Environmental, Social and Corporate Governance (ESG) on Securities Lending Markets

The Committee discussed the potential challenges and opportunities for the associated with ESG on the securities lending market.

Members agreed that the lack of a homogenous definition for ESG has hampered progress to date, noting that existing attempts by industry (e.g. MSCI's ESG Ratings approach) had nonetheless proved helpful. Clients continue to ask for ESG compliant structures (including ESG-compliant counterparty selection) but are often less aware of the potential revenue impact associated with doing so.

As expected, ESG is likely to become another metric through which the industry competes. Members agreed that ESG hasn't yet become a systemic issue but will do so if it is ever applied to e.g. sovereign debt. Some members suggested that the introduction of ESG regulation would ultimately favour larger market participants given the ability to scale up offerings and provide opportunities across business lines.

Finally, the Committee noted that, compared to the US, Europe had made good progress on ESG matters and looks likely to continue with tailored ESG client offerings.

5. Diversity and Inclusion in Securities Lending Markets

The Chair noted the intention of the SLC secretariat to put together survey on gender diversity in member firms and going forward asked members to actively make members of the Committee (and other market participants) aware of panel opportunities in order to ensure wider participation and diversity in these groups.

6. AOB, including updated SLC Terms of Reference

Members were reminded of the next Women in Finance event being held on 19 March 2020.

The Committee unanimously agreed to an updated version of the existing SLC Terms of Reference, which includes an additional paragraph to reflect the Committee's priorities around Diversity and Inclusion.