BANK OF ENGLAND

Minutes

Securities Lending Committee

11 June 2020 (2:00-3:30pm)

Type: Conference call

Attendees:	**State Street**	Alex Lawton
	ISLA	Andrew Dyson
	ISLA	Jamila Jeffcoate
	Citi	Andy Krangel
	Clifford Chance	Habib Motani
	HSBC	Jamie Anderson
	Goldman Sachs	Johanne Armita
	Norges Investment Management	Matthew Brunette
	Aberdeen Standard Investments	Matthew Chessum
	Aviva Investors	Mick Chadwick
	JP Morgan	Harpeet Bains
	M&G plc	Nina Moylett (Chair)
	M&G plc	Simon Dunderdale
	BNY Mellon	Stefan Ahlner
	BNY Mellon	Ina Budh-Raja
	BlackRock	Tim Mcleod
	Credit Suisse	Tanja Hauenstein
	Morgan Stanley	Krishan Chada
	DMO (Observer)	Jack Skinner
	FCA (Observer)	Alan Barnes
	BoE	Jon Pyzer
	BoE	Paul Alexander (secretary)
	BoE	Bianca Ginelli Nardi (secretary)
Apologies:	**Citadel**	Timothy Tomalin-Reeves
	DMO	Jessica Pulay
	DMO	Jo Whelan
	ICMA	Godfried De Vidts

Minute no.

1. Introductory remarks

The Chair welcomed Tanja Hauenstein (Credit Suisse) and Ina Budh-Raja (BNY Mellon) to the Committee.

It was also confirmed that the February 2020 SLC minutes were published on the Bank's website.

2. Recent market trends and observations

The Chair opened up a discussion on recent developments and the impact of COVID-19 on securities lending markets.

Overall, it was noted that securities lending markets had coped well with the disruption caused by COVID-19. Margin calls and credit risk concerns were much lower compared to the 2008 financial crisis and interventions by central banks had helped calm financial markets. As with previous crises, deleveraging was rapid and particularly acute during March, as participants reduced exposure across key asset classes. Portfolio turnover was said to be high with one member observing up to 10% daily turnover at the peak of the crisis. Around the same time, a few members observed a small number of beneficial owners temporarily pulling back from the securities lending market.

Securities lending markets also performed well from an operational standpoint. Members described a significant increase in margining activity, with market participants coping well given their increased frequency and magnitude. One member noted that existing haircuts had been devised in the absence of such extreme market movements and highlighted the challenges around continually revaluing collateral on an intra-day basis. That said, the high level of automation and post-trade processes within securities lending markets helped clients manage risk at the peak of the disruption.

As the crisis played out, several members also observed a switch away from equities and into government debt. And given the likely increase in US government debt issuance over the coming months, it was noted that the level of US Treasury inventory within securities lending markets would likely also increase.

Working styles had also changed significantly over H1 2020, with most market participants adjusting to a “working from home” environment. Again, most members noted little impact on the functioning of securities lending markets. However, members did observe changes to market dynamics and saw the potential for longer-term structural changes for working practices.

From a settlement perspective, there had been an immediate and clear preference for larger clip sizes in order to reduce trade volumes as back office functions adjusted to working from home. Some beneficial owners also temporarily increased buffers or reduced activity in an effort to manage operational flows at the start of the period. An interesting split between buyside and sellside players had also emerged, with the latter more determined to return employees to the office where possible.

Over the longer-term, members were in agreement that working practices would change across the financial industry. This would likely include greater usage of business-as-usual working from home practices and less stigma associated with doing so. As a result, it is expected that office occupancy rates could fall which might create cost reduction benefits for the industry. Members also agreed that productivity was a key determinant here and the requirement to work from home had shown that people can be productive from home, with added work-life balance benefits and the ability to spend more time with family.

Members also highlighted some negative aspects associated with working from home; including longer-term mental health impacts and longer working hours. Going forward, this is something that firms will need to monitor and act upon if necessary.

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

The Chair provided a brief update on recent ESG developments in the context of COVID-19 disruption.

Overall, members did not observe any significant changes in ESG-related client behaviour over the period but noted greater levels of dialogue with clients, as expected. One member noted that ESG funds had performed relatively well during the crisis; with fewer redemptions and slightly better returns than non-ESG peers.

On the whole, the introduction of short selling bans across Europe was also said to have a negative impact on securities lending markets during the crisis. Members noted improved liquidity once these bans had lifted towards the end of H1 2020 and one member referenced a public study by the Spanish securities market regulator (CNMV), suggesting the stated benefits of this year's equity short selling bans had been disputed.

4. Diversity and Inclusion in Securities Lending Markets

The Chair, alongside the secretaries, provided an update regarding a survey on gender diversity in member firms and outlined their desire for members to continue to bring along colleagues to future SLC discussions to help introduce the work of the Committee and improve its diversity over the longer-run.

Members also highlighted the need to be mindful of D&I issues during the current work from home environment and during any future return to office phase. This included shielding considerations, factors which might lead to differentials between the return of men and women to the office (e.g. childcare) and the need to avoid two separate work cultures (office vs. home).