



Minutes

Securities Lending Committee

Date: 12 November 2020
Location: Conference call

Attendees:

Aberdeen Asset Management	Matthew Chessum
Aberdeen Standard Investments	Matthew Todd
Alternative Investment Management Association	Adam Jacobs-Dean
Aviva Investors	Mick Chadwick
Bank of England	Jon Pyzer
Bank of England	Shashi Daboo (secretary)
Bank of England	Nicole Webster (secretary)
BlackRock	Tim Mcleod
Blackrock	Helen Willingale
BNY Mellon	Ina Budh-Raja
Citi	Andy Krangel
Clifford Chance	Habib Motani
Clifford Chance	Caroline Dawson
Credit Suisse	Tanja Hauenstein
DMO	Jessica Pulay
DMO	Jo Whelan
DMO	Anupriya Misra
FCA	Jack Hillier
Goldman Sachs	Johanne Armita
ICMA	Godfried De Vidts
ICMA	Andy Hill
ISLA	Andrew Dyson
ISLA	Jamila Jeffcoate
ISLA	Farrah Mahmood
JP Morgan Asset Management	Olivia Maguire
JP Morgan	Harpeet Bains
M&G	Guy Rolfe
M&G	Nina Moylett (Chair)
M&G	Simon Dunderdale
Morgan Stanley	Krishan Chada
Norges Bank Investment Management	Matthew Brunette
Norges Bank Investment Management	Will Perry
State Street	Alex Lawton

Apologies:

Aviva Investors	Sharon Terry
DMO	Jack Skinner
DMO	Jack Quested
FCA	Federico Cellurale
FCA	Wladimir Kraus
HSBC	Jamie Anderson

1. Introductory remarks

The Chair confirmed that the minutes of the June 2020 meeting were published on the Bank of England's (BoE) website; and members of the Committee had received a copy of the UK Money Markets Code (MMC) for comments.

The Chair welcomed Adam Jacobs-Dean (Alternative Investment Management Association) to the Committee.

The Chair also welcomed Andy Hill, Anupriya Misra, Caroline Dawson, Farrah Mahmood, Federico Cellurale, Guy Rolfe, Helen Willingale, Matthew Todd, Olivia Maguire, Sharon Terry and Will Perry as observers to this particular Committee meeting, as part of the Bank's initiative to make such meetings more diverse and inclusive.

2. Recent market trends and observations

An update was given on the size and composition of the securities lending market based on September 2020 data. The value of all securities made available globally by institutional investors was €22 trillion, a figure that had not changed significantly throughout the year. €2.3trillion of securities were out on-loan as at the reporting date, and of these, €1.2 trillion were government bonds

In June 2020, the portion of corporate bonds posted as collateral increased sharply, constituting 25-30% of all collateral posted – a significant shift away from equities. By September 2020, the composition of collateral had 'normalised' with equities comprising 52%, government bonds 43% and corporate bonds 3-5% of all non-cash collateral posted.

Results from a recently published repo survey in June 2020 were shared. Sterling-based collateral had increased in share to 58% of which 90% were government bonds and 10% corporate bonds.

Volatility had been elevated earlier in the year, but market conditions had become more benign as year-end approached. This followed recent COVID-19 vaccine news and the passing of the US elections.

Members noted that there is a lot of cash in system with an excess of €3 trillion of cash in Euro-land. One potential concern was of collateral scarcity going into and over year-end, especially in Germany. An example of the problems of collateral scarcity was taken from September quarter-end period, a point that coincided with the settling of the ECB's TLTRO operation - resulting in some price pressure in the specials market.

Balance sheet capacity generally looks good going into year-end with some intermediation capacity available. The cross-currency basis appears steady and the presence of central bank dollar swap lines seems to have some impact in assuaging concerns on availability of US dollars.

Hedge Fund capital deployment falling aggressively in the peak stress in March during the 'dash for cash' was highlighted. (Leveraged) capital has flowed back since, with Europe lagging Asia and the US. In general, platforms are running less leverage since the crisis peak in March. Overall, Hedge Funds were felt to have had a strong year and therefore there is little need for them to chase profit going into year-end.

Clients were looking to make direct transactions with lenders and this trend was expected to continue.

In terms of revenues, year-on-year securities lending revenues were not as strong as 2019. Revenues over the year have held up best in Asia and US, and remain strong in Europe.

The general theme of this year has been lower rates, spreads being driven by corporate actions, (lack of) dividend issuance (with many cancellations and dividends falling by 46% year-on-year), Brexit, and challenges in Asia-Pacific markets from trade wars. Many of the revenue drivers were in a trough. There had been low levels of corporate activity. 'Specials' markets were a key driver of revenue this year as

compared to the market for General Collateral (GC). Members also found it difficult to generate revenues and returns on cash collateral reinvestment.

October 2020 saw the introduction of Securities Financing Transactions Regulation (SFTR) for the buy-side. The systems and infrastructure set up as part of the SFTR have performed well, but there are pockets of buy-side firms that are not yet set up for SFTR reporting. Conversations with these firms indicate that they had not prioritised operationalising SFTR reporting. The system is working well, and the work of ISLA and others have contributed to the SFTR's smooth running.

Members felt it was too early to tell whether the trends observed this year in securities lending were cyclical or structural. Over the past few months market participants have demonstrated that they are still keen to be involved in the market; this demonstrates that there is still confidence in the securities lending markets as a whole.

3. Diversity and inclusion in Securities Lending markets

The Bank of England (BoE) provided an update on wording in the Diversity and Inclusion (D&I) section of the Money Markets Code.

An agreed version of the text was currently with the BoE's lawyers. The updated Code now includes a section in the introduction on D&I and subsequent text on working from home.

Members shared the view that COVID-19 had changed attitudes to working from home. One member shared a statistic that 50% plus of the workforce had worked from home at some point this year. This highlighted the need for employees to balance work/home responsibilities. The surge in working from home has highlighted that employees can still be productive while working from home. Another member balanced off a possible productivity drop in working from home against the flexibility to work around employee's home patterns.

One member commented that the firms' leadership have had to adapt to this new way of working, and leaders are continuing to learn about the impacts of these trends on social capital.

One member noted that risk and controls had been a focus for many firms this year. Most risk and control initiatives had worked well and remained robust in the new working from home environment.

One member cautioned that the shift in working patterns could cause disparity between genders. Citing a report from McKinsey, the message was that if gender diversity improvements are to be sustained then firms and leaders need to be aware of the disruptors that are impacting working women and people from different ethnic origins. The member cited a statistic from the report that more than 1 in 4 women are looking downshift or leave the workforce. Some women were being hit hard by the double shift syndrome – reduced support for childcare, and school closures (both of which disproportionately impact women) – leading to concerns about their work performance being judged negatively. The member also shared another statistic that senior women are one and half times more likely than men to downshift or leave because of burnout. The message was that day-to-day practical solutions can be taken to help address some of these issues.

On recruitment, several members had not hired much due to market dynamics. Those that had conducted interviews had generally found that recruiting by virtual means had worked well. Some members found conducting interviews by video conference worked better than face-to-face meetings. There was consensus that integrating new employees into a new team was made more difficult by the current conditions.

Members agreed that more effort needed to be made to ensure that on-boarding new recruits was smoother and more structured. This involves ensuring that new recruits are supported in getting up to speed with their day-to-day tasks and the culture of their organisations. Members agreed that managers and peers need to be more involved on a day-to-day basis to on check-in with new recruits.

Another member sounded a word of caution as more people return to office working. There needs to be a recognition that those that continue work from home and those that work in the office are treated equally.

One member noted that when things return to normal, working more flexibly will be generally more acceptable for both men and women, yet that should not be detrimental to people's careers.

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

The Committee discussed whether the Securities Lending Market needs to reposition itself for the ESG client ask.

It was felt that that ESG considerations and securities lending should not be viewed as discrete concepts colliding with each other. ESG considerations impact all aspects of the securities lending franchise.

Some suggested that securities lending suffers from an image problem. Securities lending is important for efficient, sustainable capital markets. Not lending securities because of an ESG concern can cause issues of liquidity and reduce the pool of available collateral.

Governance aspects of certain securities were identified as a potential challenge. It was discussed whether there was a role for rating agencies to help the situation. It was noted that governance considerations should not be an issue for securities lending, citing that among the FTSE 100 names, at any one time, only 5% of the stocks are ever on loan; therefore it was argued the challenge that governance considerations create a problem for securities lending is not one that holds up.

There was agreement that there has been an increased need to screen collateral requirements based on ESG credentials.

It was also suggested that more transparency may be demanded in the future by asset owners who may have concerns on the motivation and signalling that results from their securities being borrowed by short-sellers.