US Beneficial Owners Roundtable

On December 6, 2019, executives from the lender, borrower, agent lender, consultant, and data provider community gathered in New York to discuss some of the key issues influencing the US securities lending landscape. Here, we present some of the highlights from the roundtable discussion.

PARTICIPANTS:

Nancy Allen, global product owner at DataLend

Elaine Benfield, senior counsel at Vanguard

Christopher Benish, CFA, managing analyst at State of Wisconsin Investment Board

John Fox, director, head of client management and sales for North America at BNY Mellon

Axel Hester, director of securities lending at State Street Global Advisors

Greg Korte, partner, custody advisory services at Aon

Michael Madaio, managing director, collateral funding and trading at Pershing LLC

Bill Smith, managing director, Americas sales executive at J.P. Morgan

Francesco Squillacioti, global head of client management for securities finance at State Street

Chair: Louise Fordham, special reports editor at Global Investor

CHAIR: What key trends have shaped the securities lending market in 2019?

NANCY ALLEN: As we look back on 2019, it's important to remember that 2018 was a record post-crisis year with gross revenue reaching nearly $10bn. The first three quarters of 2018 benefitted from rising markets which resulted in higher volumes, but in the fourth quarter markets really began selling off, driving balances down while fees remained flat, resulting in a drag on revenue. Ahead of 2018 year-end, we saw significant de-risking by hedge funds, and although we saw equity growth in Q1 2019, hedge funds generally sat on the side-lines into 2019 and maintained a long bias which is not beneficial for lending markets.

The key themes hitting both equity and fixed income markets in 2019 have been global macro uncertainty driven by trade wars, Brexit, and central bank actions, all resulting in a lack of conviction from hedge funds and alternative investment managers and decreased demand for high quality liquid assets from a collateral perspective.

Beneficial owner lendable assets were $20tn on average in 2019, up from $19.5tn in 2018. However, average balances dropped from $2.4tn in 2018 to about $2.2tn in 2019. Revenue in 2019 was down 13% relative to 2018, coming in at $8.66bn, with declines across all regions and across asset classes, driven by both lower balances and lower fees. The only exception is Asia Pacific, where there was a marginal increase in balances.

On a more positive note, we did see a bit of a recovery in Q3-4 2019, specifically in the equity markets where a handful of specials drove revenue higher. If we look at revenue by fee bucket, that also shows the impact of these high-earning securities; special securities, defined as those trading 500bps and above, made up 46% of total revenue this year, compared to 37% in 2018.

In 2019, the top five securities generated $680m – that's 8% of total revenue, whereas the top five in 2018 generated $465m, or 4.5% of total revenue. Revenue generated by Tesla in 2018 was $142m, eclipsing the top earner of 2017 which was Snap at about $110m. Meanwhile, Beyond Meat generated $193m in only eight months in 2019. So, although 2019 was a year where we saw a lack of conviction and global macro conditions that resulted in lower balances and lower fees, there was significant revenue generated by some very concentrated names and beneficial owners who held those names would have had a more positive 2019 experience.

As we look back on 2019, it's important to remember that 2018 was a record post-crisis year with gross revenue reaching nearly $10bn.

Nancy Allen, DataLend

FRANCESCO SQUILLACIOTI: We have also seen supply growing over the past 18-24 months. There has been a lot of interest from beneficial owners and asset managers who have never lent before looking to get into the market, which has had an impact on supply. On the other hand, as Nancy highlighted, demand has been a little bit depressed. And while specials have been few and far between, they have been name-specific and pretty impactful.

MICHAEL MADAIO: On our side, as a broker dealer with retail clients, we have seen our fully-paid lending product grow by 25% in terms of client numbers. Part of the reason is interest driven by these particular names; when they hit the press people ask what they can earn if they were to lend their securities. It's been good at driving participation.

JOHN FOX: I would agree that this year has been largely about the few names that have driven most of the revenue opportunity. That's an unusual state of affairs, but in Q3 2019 we had a single name that was representing 10-12% of the market's returns. When situations like that arise, it's very important to articulate that to clients.

MICHAEL MADAIO: In terms of volume, one of the things that happened in 2019 is that short sellers themselves were scared away. The market went against them to begin with, and while these particular specials are outliers there are still hundreds of securities that trade at negative rates. That creates an immediate negative return for the short seller, especially if there are also dividends to pay. It can get expensive very quickly, more so if the price moves against you.

FRANCESCO SQUILLACIOTI: In some ways the fact that the market has been a little bit depressed compared to a few years ago has caused everybody to innovate and find new ways of doing things. There is a lot happening and a lot of information for clients to consume. Those of us who do this for a living and are immersed in securities finance all the time need to break it down and make it digestible for clients and their boards because they are very interested in, 'What are other people doing? How can we improve things? How can we generate revenue within a certain risk framework?'

JOHN FOX: Beneficial owner boards are often interested in best practices across the industry. They want to know, both in terms of their risk profile and in terms of the specific parameters of their programme, how they compare with their peer group. That's particularly the case when it comes to asset managers. They focus on their securities finance returns, and if their lending activity generates superior returns relative to their peers, they want to know what caused that deviation and why their fund family has outperformed another fund in a competing family when the investment profile is virtually the same.

There has been a lot of interest from beneficial owners and asset managers who have never lent before looking to get into the market.

Francesco Squillacioti, State Street

CHAIR: Has there been a shift in the way beneficial owners think about lending?

CHRISTOPHER BENISH: What has been encouraging for me as a beneficial owner is that the discussions have evolved not from just, 'What is securities lending?' and 'What's my number at the end of the month in terms of earnings?' but to really thinking through, 'What is the securities lending market telling me about the

broader market? How can I integrate what that information is sharing into the strategies that the portfolio managers are running?' It's a much more integrated discussion across our internal staff around securities finance in general, and that's one of the directions that we're trying to move in.

We don't want to think of securities lending as this isolated, standalone silo that's walled off from everybody else. We want it to be about, 'What are we seeing in lending? How does that impact what we're seeing in borrowing? Why are there differences? What strategies can we maybe employ or what arbitrage opportunities are out there that we could take advantage of? How do we best employ our balance sheet from a funding perspective, whether it's funding leverage or arbitrage opportunities?' Securities lending is one small piece of that discussion, and it's becoming a much more integrated conversation, which has been a really interesting development.

We are evaluating considerations outside of a narrow historical focus on returns in securities lending.

Axel Hester, State Street Global Advisors

FRANCESCO SQUILLACIOTI: We're seeing a lot more of an evolution among our client base where beneficial owners who historically were only lending securities are now also running leveraged strategies and crossing over to borrowing at the same time. This makes it important not just to have a securities lending discussion, but a broader securities finance discussion. And it's important to be able to meet those client needs in a holistic way.

AXEL HESTER: We are evaluating considerations outside of a narrow historical focus on returns in securities lending. We have started to look much more heavily at the whole holistic programme; for example, questions that are examined include 'What are the risks associated with lending? What is the risk-return trade-off that has actually been experienced here?' Additionally, 'Are we considering ESG (environmental, social, governance) aspects appropriately? When we participate in securities lending, are we considering QDI (qualified dividend income) aspects? How is this impacting our portfolios?' We are now considering all of this rather than just asking, 'What's my number at the end of the month?'.

I think that shift has allowed us to take a couple of steps forward in developing our organisational understanding and informing our investors. We are helping stakeholders understand that risks do exist but they are manageable if you know what they are and where they're coming from. Therefore we can strike the correct balance between risk and reward more effectively and understand how it's impacting our portfolio and investment philosophies as a whole.

CHAIR: Is traction building behind ESG considerations in the US securities lending market?

BILL SMITH: It is, although perhaps at a pace behind Europe for the moment. ESG will be something that is yet another factor that we will need to support in the future. Clients are going to have requirements around ESG and we are going to expand our platforms and product offerings to include customised collateral sets and customised lending rules that will be supportive of clients' ESG requirements. It will take technology investment to expand these capabilities.

NANCY ALLEN: The focus on ESG is a reflection of the shift of securities lending from a back-office commodity into a front-office investment product. With that comes additional overlays and strategies that need to be deployed. There is more to consider than simply ticking a box and enrolling in lending; now beneficial owners are considering ESG, collateral, different types of borrowers and new trade structures.

AXEL HESTER: As investment managers we want to know we are upholding our ESG principles and our governance standards throughout the investment process, which includes securities lending activities. There are ways that you can manage ESG principles effectively, accomplish our goals, and still participate in lending. They are not mutually exclusive. However, there may be different approaches on how one manages the investment process, and hence, how one manages their lending programme to satisfy those governance requirements.

CHRISTOPHER BENISH: Ultimately, I don't think it's fundamentally different from how most experienced beneficial owners evaluate securities lending today, which is, 'What's my fiduciary duty? What's the cost benefit, risk-reward of each individual name, transaction, etc?' This is one more dimension to that.

CHAIR: Are alternative lending models, such as peer-to-peer, gaining momentum in the US?

CHRISTOPHER BENISH: We're actively engaged in peer-to-peer discussions and in thinking through what it will take to put a better peer-to-peer model in place. I've been going

to industry conferences for 14 years now and peer-to-peer has always been on the table but it feels different this time, it feels like there's actually some momentum behind it. We have live trades on with peers, not just in the securities lending space but in repo lending and borrowing, etc. It has legs. We see it as having a lot of benefits in terms of alignment of interests and in terms of counterparty credit. There's a diversification to including our peers as counterparties versus the traditional banks and broker dealers. I think they all probably have a place in the end, but peer-to-peer is something that we are very interested in and looking at in depth.

Might I suggest that we consider re-branding securities lending 'peer-to-peer'?

Elaine Benfield, Vanguard

MICHAEL MADAIO: A key consideration with peer-to-peer is infrastructure. If agent lenders are going to utilise their infrastructure then that makes it much more of a doable scenario, and I think we're starting to see that.

FRANCESCO SQUILLACIOTI: Peer-to-peer is a great way for diversification to happen, and it's another outlet for demand in some cases, so I do think it has legs and should grow. Given the evolving securities finance discussion, I feel the time is right in terms of clients being more comfortable with this type of structure. From the standpoint of the beneficial owner or the underlying lender we've been working with, there's been a period of gradually becoming comfortable with various types of lending structures and exposure.

State Street recently launched its Direct Access Lending product, which is our peer-to-peer model. What we sought to do was to make a model that, from the agent lending side and from the hedge fund side, looked as much like what they were used to as possible. So, a model where we're providing additional lending opportunities while diversifying the risk and indemnifying it as an agent lender. From the hedge fund point of view, we aimed to provide the benefits of direct exposure to a beneficial owner, but through a managed platform that mitigated potential operational burden.

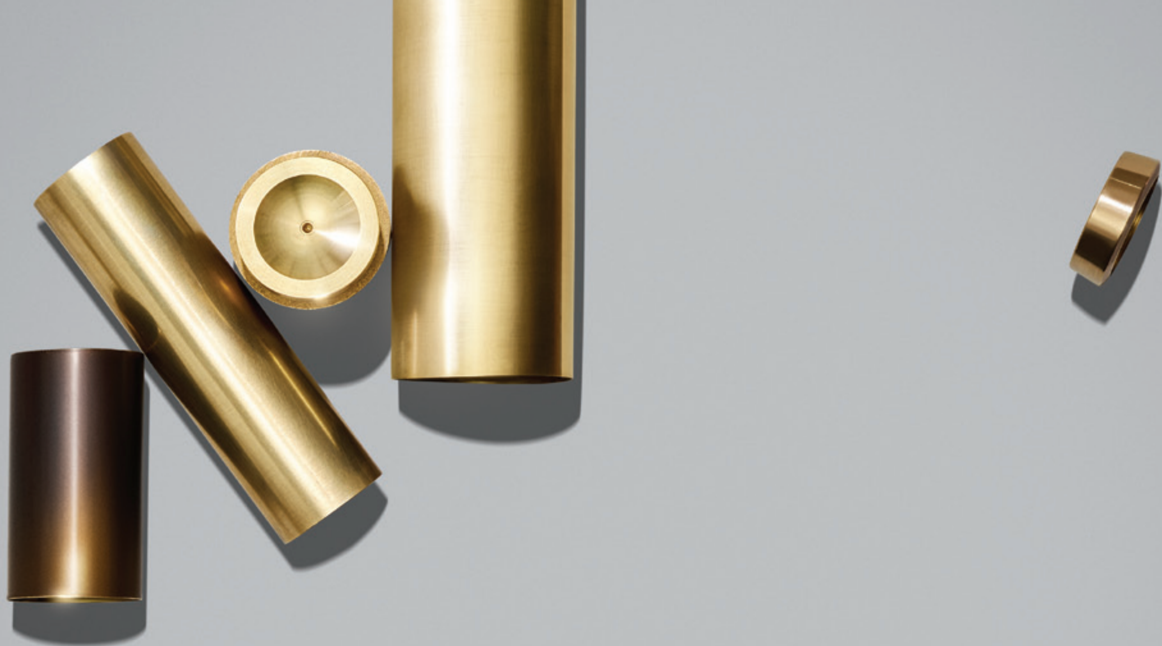
ELAINE BENFIELD: Might I suggest that we consider re-branding securities lending 'peer-to-peer'? The terminology suggests peer-to-peer is a mutual fund lending to a mutual fund or a hedge fund lending to a hedge fund, for example, whereas it could actually be a mutual fund lending to a hedge fund. The name could be particularly confusing for those not familiar with the securities lending industry. Is it not simply approving lending securities to new types of borrowers under existing agency lending programmes?

BILL SMITH: Peer-to-peer means different things to different people at this stage. There is traction, but it is still in the formative stages. There are different ways for a beneficial owner to expand their distribution network through their agent lending bank simply by using non-traditional borrowers. That's different than saying, 'A pension plan is going to lend directly to another pension plan.'

The question I would have for beneficial owners is around the infrastructure they envision using for peer-to-peer. Do they see a market infrastructure built out and standardised to a point where it will be suitable to cover these activities, or do they expect to rely on their agents or existing infrastructures to change the way that they transact with borrowers, and potentially lenders, across existing platforms.

CHRISTOPHER BENISH: The way I think of it is, we have a limited number of cycles to spend on this kind of activity, and so where do I want to spend my energy? I want to spend my energy on maximising the utility of my balance sheet and maximising how we fund and monetise our asset base. I don't necessarily want to build out a securities lending infrastructure, I think that already exists in the market and it functions really well. My challenge to the traditional lending agents of the world is how to best integrate new participants and new counterparties that perhaps want to participate in a different way than they have in the past, how to best be that infrastructure for those who want to trade with each other.

BILL SMITH: I think many of us in the industry are looking at that as an opportunity. We have platforms through which we can connect an insurance company that's long cash that wants to do repo with a money fund directly. There are also Fintechs out there who are looking to engineer technology that can match borrowers and lenders. Ultimately, it's going to be a question of how can you get access to safety and scalability through a suitable platform's infrastructure. If you don't want to develop the back or middle office to facilitate peer-to-peer lending, then you might want to use an existing platform that gives you access to the names that you would choose to have as counterparties, and may even bring you names you didn't know might qualify as counterparties down the road.



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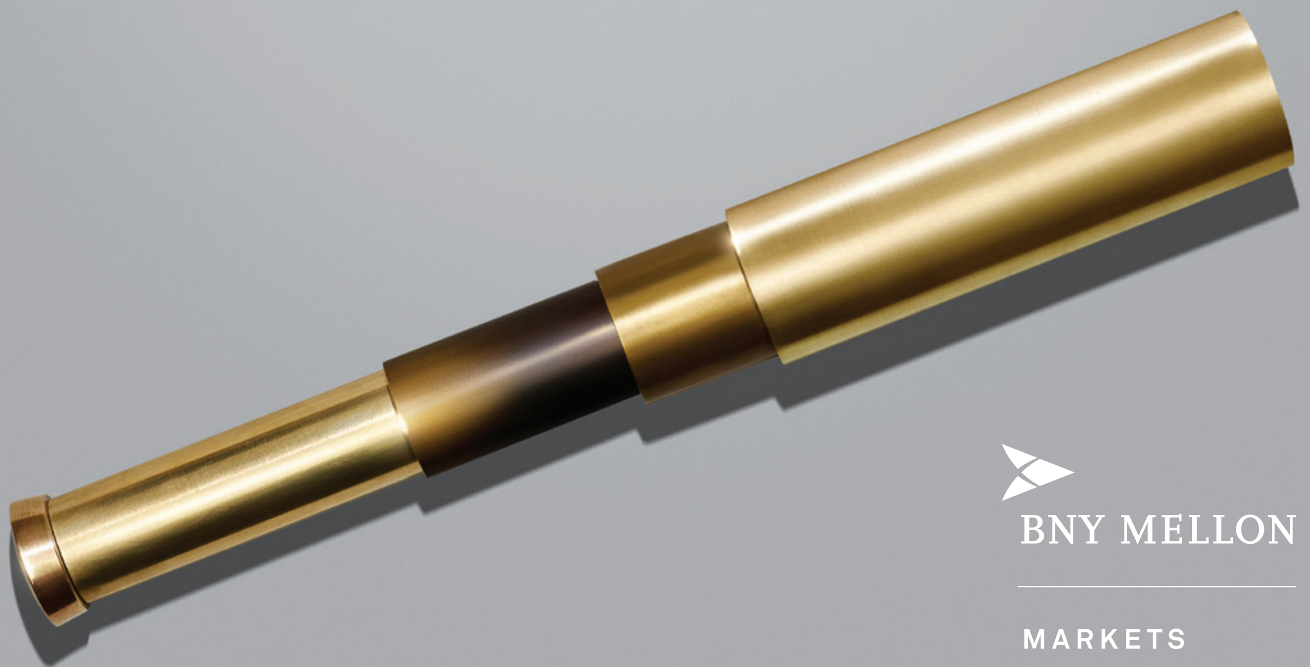

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CHAIR: Is there similar momentum around other lending models, such as central counterparty clearing (CCP)? For example, DTCC is working on a securities finance CCP and OCC is expanding its exchange offering – is there significant appetite for such ventures?

NANCY ALLEN: Central counterparty clearing houses are one component of the anticipated growth strategies in the financing markets. Several years ago, we established EquiLend Clearing Services, which provides connectivity to global CCPs, including OCC and Eurex. We are well positioned to connect to any global CCP that enables clearing of securities lending transactions. We see central clearing as a route to market that is gaining more and more traction, and we are helping to facilitate that trade.

It will be about platform evolution and it will be achieved through investment.

Bill Smith, J.P. Morgan

FRANCESCO SQUILLACIOTI: Everybody is trying to become as capital efficient as possible, and I think ultimately CCPs could be an attractive option for people to get into because it is very efficient from a capital standpoint.

JOHN FOX: We're always interested in alternative forms of distribution and different routes to market, but one of the elements we need to consider is that every distribution model has a unit cost associated with it and that unit cost often encompasses our cost of capital. We have to take into account the return-on-capital (ROC) hurdles that each of these models represent, and determine whether it's something that's going to be viable on a large scale or just to a more modest degree.

CHRISTOPHER BENISH: It's a model that works for options, it works for futures, it's working for repo, and it could work for swaps. I have yet to be convinced that CCPs won't work for securities lending. It might not be a wholesale change in terms of how the market operates but it is one more tool in the toolbox.

BILL SMITH: One of the pieces that I think is different for securities lending is the longstanding existence of indemnification risk mitigation that the lending agents provide, and to drive that through the CCP model becomes a bit of a different question. The CCPs have effectively been self-insured by and amongst the member entities. We have clients who would be more than happy to allow us to distribute through a CCP as long as we maintain the indemnification against the borrowers on the other side. The question, from our perspective, is whether that is a sensible capital and technology investment.

CHAIR: As the market evolves and we enter a new decade, how can agent lenders safeguard their business models?

AXEL HESTER: I think that the model is relatively safe if it's well managed. The fixed costs to create the securities lending infrastructure are significant, and to the extent that agent lenders properly invest to maintain that infrastructure, and invest to maintain the leading edge in developing new infrastructure -- that's valuable. There are a few asset managers that have the economies of scale to support sufficient infrastructure in-house, but very few that can economically develop and improve it on the scale that agent lenders can.

That said, anything can be disrupted. We've seen that in other industries, such as the retail industry, so agent lenders always have to keep their eyes open and look at what may be coming from an unexpected direction.

NANCY ALLEN: As the market changes and evolves, agent lenders are investing more in data and technology. It's critical that they take the beneficial owner along with them as they make these investments. Maintaining an informative and active dialogue with beneficial owners will help position both parties to capture optimal value going forward.

BILL SMITH: I think to use the term 'safeguard' almost presumes that the model is static; the model is very active. We are investing in technology by either directly developing it ourselves, investing in bought technology, or investing in Fintech companies who are developing tools to continually try to stay ahead of the needs of our clients. The business that you will see us in three years from today will be very different from the business we were in three years ago, or that we are in today. It will be about platform evolution and it will be achieved through investment. As we go through the next phases of the Uncleared Margin Rules (UMR) that's going to drive a further convergence of traditional securities lending, collateral management, and liquidity management. This means we will be facing an environment where these are going to become increasingly interrelated. This is going to provide opportunities for clients to further leverage our securities lending platforms and services.

JOHN FOX: This is a market subject to constant regulation and complying with that regulation requires innovation. It's

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great if you have talented, innovative people on your team, but you need the funding support of the firm behind the agent lending programme in order to be able to commit the necessary capital so that those innovations come to fruition. That's especially true in those years where securities lending returns aren't on the high side, because we are complying with a constantly changing regulatory environment, and it's important that the capital expenditure is there to allow agent lenders to solve these new issues.

GREG KORTE: There are some beneficial owners that don't have the resources to drive innovation. You can't leave those firms behind; you have to make sure you are innovating for them.

There are some beneficial owners that don't have the resources to drive innovation. You can't leave those firms behind; you have to make sure you are innovating for them.

Greg Korte, Aon

CHAIR: What types of new technologies are helping lenders, borrowers, and other industry participants to improve their operations?

NANCY ALLEN: We've spent nearly two decades focused solely on the securities finance market and automation, but we are now also looking at bringing greater automation to the swaps market and to the collateral markets. We're also looking at AI (artificial intelligence) and machine learning; for example, we recently conducted a proof of concept where we deployed these technologies to bring greater efficiency to the post-trade reconciliation processes.

BILL SMITH: There is a myriad of places where you see technology improvements, from enhancing inventory visibility through potentially broadcasting it to more platforms, to portfolio optimisation through AI, to trading platform integration, to incremental data sources. Technology can also be employed to address the convergence of collateral and securities finance, if for example, a beneficial owner is looking at their portfolio and asking, 'How many purposes can this security serve today? Which is the most efficient and how do I optimise that against the cost of moving it from one use to another?'

JOHN FOX: The velocity of change is accelerating, to the point where the concept of predictive analytics around loan activity, for example – which was something that was only just being talked about a year or two ago – is now something that's on the short-term horizon. We talked earlier about the ability to invest in these latest innovations and that there is a huge capital expense to consider to make these things come to fruition, but the motivation is that we're all working together – the beneficial owners, the borrowers and the agent lenders – to bring these tools to market.

FRANCESCO SQUILLACIOTI: I would underscore the use of predictive analytics, it is something that is becoming increasingly important and something that we are focused on. The other piece of the equation is client technology. It's about making sure that they have access to information, and to different cuts of information in a shorter timeframe.

AXEL HESTER: From our perspective, it's about front-to-back integration where we have one system where we can go and see when a trade is failing, when a trade gets delivered out, what rates it was delivered out at. It's about being able to see all that information simultaneously, have our cash traders be able to see it, have our portfolio managers be able to see it, trying to identify trends that are going on in the market on their own bonds in real time, trying to figure out if they want to trade on a short settle, being able to see whether a security is on loan, and whether it has settled on a return. Historically, all that information has been delivered next day, and that's if you're lucky. I think there is going to be a huge empowerment to beneficial owners when that lending information is brought live to the front office.

JOHN FOX: Banks are working on simplifying the number of systems and the workflow that lenders and borrowers have to contend with. Two years ago the focus was on reducing manual intervention and today it is on eliminating manual intervention altogether. In simplifying the workflow it's pragmatic to assume we will get to a point where there will be fewer systems involved, which will provide that increased transparency for all market participants.

NANCY ALLEN: Demand for data continues to grow, and the data is being used in non-traditional ways. Beneficial owners and portfolio managers are looking at securities lending data for portfolio construction or to drive more real-time trading decisions. They are looking at that data not just for securities lending, but across all financing to drive the efficient allocation of collateral.

GREG KORTE: It's part of my job to go around and see how firms are investing in technology this year and next year. One example of technology being applied is around

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the trader – they now have five or six screens in front of them whereas a lot of it used to be phone based. AI is driving this person to be able to see a smaller and smaller set of decisions that they need to make.

Another example is using technology for a trading advantage, i.e. 'I want to go to market with my trade a millisecond before your firm, because that gives me an advantage of getting filled at a rate I want.'

CHAIR: Are US desks concerned by the impact of EU regulations, such as SFTR and CSDR? What are the most pressing regulatory issues on the agenda for the US securities finance industry?

ELAINE BENFIELD: I think most people are well versed in SFTR and its global impact, as well as CSDR from an operational and trading perspective. The macro issue is how these regulations in Europe will change the trading patterns of beneficial owners, and whether these regulations will negatively impact the securities lending industry in certain regions and push trading into other regions. As these global regulations evolve, it will be interesting to see how they impact market participation.

MICHAEL MADAIO: What about the mandatory buy-ins? Could that be an opportunity? In the US where we have Regulation SHO 204, stocks often become more expensive as broker dealers look to avoid potential buy-ins. I can imagine there could be scenarios where firms don't want to get bought in, and a market could develop to avoid those scenarios.

BILL SMITH: I think there is a lot of client education on evolving EU regulation underway currently. The hope would be that the regulation is not going to change non-EU client behaviour, but it is not insignificant. One of the challenges we have had in the Americas and in Asia Pacific is that this hasn't been part of the vernacular to the same extent that it has been in Europe, where it is more commonly understood. The implications of how it will impact clients domiciled here in the US or in Asia Pacific has not been fully concluded yet.

Looking ahead to the next year, we have a big push on upgraded infrastructure and incorporating more technology into not just securities finance but all aspects of our business.

Christopher Benish, State of Wisconsin Investment Board

What about the mandatory buy-ins? Could that be an opportunity?

Michael Madaio, Pershing LLC

FRANCESCO SQUILLACIOTI: Beyond SFTR and CSDR, Single Counterparty Credit Limits are set for implementation in January 2020. The good news is that some firms will be allowed to use their own internal models to calculate risk. However, it is not quite clear how risk-shifting is going to work for some of the transactions so that is something to keep an eye on.

CHAIR: What do you expect 2020 to bring for the US market?

GREG KORTE: Over the last couple of years, some clients have been reviewing their lending programmes in a thoughtful way to validate and put that diligence in their files, while others who are not lending want to know, 'What's the monetary decision that I'm making by staying out or going in?' That doesn't mean they don't want to engage in lending, but they do want to know what it costs or what the trade-off is revenue-wise. We also have some clients that, due to shifts in the market, are not earning as much as they did through securities lending as a couple of years ago. They are making the determination, 'Do I stay for this little bit of earnings? Is it worth it? Or do we sunset our programme?' I expect that to continue into 2020.

NANCY ALLEN: Data is being used to inform the answers to the questions Greg raises. More than ever, beneficial owners are directly consuming data and using it to drive the structure of their programme. They are also performing more detailed performance measurement to better identify opportunities and capture value. I expect these trends only to strengthen in 2020.

CHRISTOPHER BENISH: Looking ahead to the next year, we have a big push on upgraded infrastructure and incorporating more technology into not just securities finance but all aspects of our business. It's a real opportunity to better educate my investment peers within the organisation about what securities finance is and how we can better support and influence the work that they do. As an organisation, it provides an opportunity around

how we can think about utilising more strategies that take some of this data, information, and infrastructure into account and perhaps look at doing different kinds of trades that maybe we haven't participated in in the past because either we weren't structurally set up to do them or we didn't have the staff or the resources to be able to dedicate to evaluating the risk-reward trade-offs.

MICHAEL MADAIO: 2020 will be all about the data – finding it, mining it. That's a huge challenge because important data is embedded in many places. We are very focused on analytics because we believe it will allow us to better position ourselves and protect our clients. We're likely to experience higher than normal volatility in the upcoming election year so we think it will be important to focus on the things we can control and the value we can deliver.

JOHN FOX: In the US, historically speaking, over a four-year cycle the presidential election year is generally the worst-performing year for markets. That uncertainty sometimes correlates to better securities lending returns, so there could potentially be some upside in securities finance revenues in 2020.

CHAIR: There remain some misconceptions around securities lending in certain quarters, so if there were one thing you would like people to know or better understand about securities lending, what would it be?

MICHAEL MADAIO: If you're a longer-term holder of a security, there's a good chance that the price of that security will be the same in six months whether or not you decide to lend your position today. However, if your peers do lend the difference between your performance and theirs will be that they monetized that opportunity and you did not.

AXEL HESTER: There are misconceptions about the risks associated with securities lending. A lot of people, who aren't familiar with and don't deal with it on a daily basis, still view securities lending as somewhat of a black box. We have to be able to communicate to this audience that it is an investment decision with a risk-reward trade-off, not all that different from other investment decisions. When properly structured, securities lending can be highly beneficial, but to structure it properly, the risks need to be understood. However, it is not just stating that fact, but rather explaining why and how. I think the only way that we can get over some of these hurdles is through further education and for people to understand that securities lending is just a different perspective than they may be accustomed to looking at investing from. It's an asset-liability match as opposed to a long-only strategy, for example, and there are additional considerations that that brings in.

I would like beneficial owners to focus on the little things.

John Fox, BNY Mellon

ELAINE BENFIELD: I am hoping that securities lending is viewed more as a front-office function as opposed to a back-office function because I think it is a critical element of the overall portfolio management strategy. Of all the portfolio management strategies, the beauty of securities lending is that it is fully collateralised and marked daily. If you structure your securities lending programme consistent with your investment strategy and risk appetite, it can be very valuable and relatively low risk.

JOHN FOX: I would like beneficial owners to focus on the little things. For example, understanding that small tweaks to the current parameters they have in the programme – whether that's expanding to additional forms of non-cash collateral where they are already potentially indemnified, or recognising that there may be a few securities that are generating a large return – can make a big difference to their performance.

GREG KORTE: I would like asset owners to recognise that the major risks in securities lending are in the cash collateral reinvestment and exposure to commercial paper and other items, and that it is very likely that the same exposure exists in their cash fund. I would also like all beneficial owners to make decisions based on data.

BILL SMITH: The business is evolving. When you think about the growing supply of securities and new beneficial owners entering the market, we are reminded that opportunities to create value are consistently opening and being taken away by the market. We don't think of securities lending as a static product. We offer a platform where we create value for clients, and in doing so provide liquidity into markets. The markets are going to evolve in ways where we have new opportunities to create value and some clients will take advantage of these or some won't. Our job is to bring investors and beneficial owners opportunities and articulate them in a way that enables them to make informed decisions on which to take advantage of. ■