

Asian Markets Recognize the Merits of Securities Finance

By Andrew Shinn, SunGard Astec Analytics

During the crisis of 2008-09, it seemed that regulators around the world coordinated their actions as they clamped down on short selling. Despite the copious amounts of academic research validating the benefits of short selling, once the SEC ban went into effect in 2008, other regulators were clearly pressured to do the same.

Because short selling is more nuanced in reality, an outright ban on short selling may have overreached objectives. Whether the issue stems from settlement failure or market manipulation, regulators would serve the industry more effectively by focusing on and addressing the specific problem.

There is a tendency for securities lending to share the same vein of opinion and fate as short selling. Like short selling, there are many shades of securities lending, with diverse models and markets all over the world. Each market uses different types of collateral and routes to market, with some markets focusing on lending specials while others generate general collateral balances. In addition, the viewpoints of stock exchange officials and regulators in each market vary considerably on the merits of disclosure and transparency. Therefore, dramatic variances in borrowing activity in each market over the past year come as no surprise.

In light of what is happening in the more traditional mainstream markets in the US and Europe, it is refreshing to see the growth taking place this year in Asia. The last two decades have been ones of unfulfilled promise interspersed with heavy oversight and the use of "access products" to open up the securities finance markets. After years of discussion, however, this seems to be changing. While the mature European and American markets have long

sought to establish their models as archetype, it is clear that the local Asian markets have found their own ways to embrace the value of securities lending.

The following chart illustrates how each country's equity borrowing activity has expanded over the last year. Of the largest markets, Hong Kong has had a checkered history. During the early days of securities lending, there were strict reporting rules and buying requirements. But lately the Hong Kong market has shown significant growth in activity, almost doubling from last summer. Interestingly, Hong Kong is one of the markets that did not instigate a short selling ban.

Australia's securities lending market has not fared well, in part due to the relatively long-standing ban on short selling and regulatory restrictions placed on short selling and securities lending. For instance, since broker-dealers must actually possess borrowed shares before executing a short, many hedge funds have transacted less in Australia than they otherwise would have.

Since July 2009, Japanese equity

borrowing activity has been more volatile but has ended up in the same position in terms of lending volume. In comparison with other Asian markets this long established Asian market has remained fat.

Of the developing securities lending markets in Asia, Taiwan is the most notable success story with its exceptional growth rate of 800% since last summer. The Taiwan securities lending market is two-tiered, but local brokers seem to be participating more with the global investment banks, leading to a convergence of the on- and off-shore markets. Despite the success of the overall securities lending market in Taiwan, there is still tremendous untapped demand from borrowers. South Korea has also shown good growth, and the enhanced transparency, central counterparty model adopted in that market, may offer a glimpse of the future market structure to some of the more established markets.

When looked at from a global perspective, in the world of securities lending the sun is rising faster in the East. ■

