NORTHERN TRUST

APAC: A NEW ERA BEGINS

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Drew Nicol reports: APAC securities lending market experts take on the region's hot topics including the opening of China, a post-COVID-19 recovery, short selling bans and ESG.

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2020 saw a wave of short selling bans across Asia of varying lengths and severities. How did this affect securities lending markets?

MARK SNOWDON: There were four markets affected by short selling 'restrictions':

Taiwan – a reduction in the daily short sell quota from 30% of the 30-day average daily value (ADV) to 10% of ADV from 19 March 2020 plus a tick rule for stocks falling more than 3.5% from previous day's close. Initially set for three months but was lifted a week early.

Malaysia – a ban on all types of short selling from 24 March 2020 (except permitted short selling for exchange-traded fund (ETF) market makers) until 30 April, then 30 June, then extended until 1 January 2021 when it was lifted with newly-introduced enhanced control measures.

Thailand – a new tick rule was introduced on 13 March 2020 until 30 June, subsequently extended to 30 September and lifted on 1 October.

South Korea – an outright six-month short selling ban from 16 March, subsequently extended to May.

The ban had the most impact on South Korea with overall revenue down 45% YoY, according to IHS Markit. Short positions were allowed to remain and unwind naturally but this unwinding led to greater and greater unutilised lending supply which led to aggressive downward re-rating by borrowers. The various restrictions certainly had a negative impact (psychologically as well as materially) but it is difficult to estimate the precise impact when several other market dynamics were at play leading to substantial revenue attrition across the region.

Across the client base, the market did witness some beneficial owners suspending or pulling out of their lending programmes as they had concerns around market volatility and the perceived correlation between securities lending and short selling. In Australia, the Australian Securities and Investments Commission (ASIC) did reach out to the Australian Securities Lending Association (ASLA) to discuss the potential impacts of key super funds pulling out of lending programmes and how that would impact market liquidity but there was no consideration of any short selling bans. This demonstrates that developed markets have learnt that short selling bans harm the financial markets after the financial crisis in 2008.

SIMONE BROADFIELD: The measures to limit short selling across several Asia Pacific (APAC) markets, combined with the longer-term short selling ban in South Korea led to diminished lending opportunities and significant industry-wide spread compression.

We initially saw a risk-off sentiment, however as market limitations were lifted, recoveries were swift and activity grew increasingly stronger as 2020 drew to a close.

As it relates to South Korea, lending flows are muted and the market is taking a conservative approach due to the uncertainty concerning when market trading will return to normal.

BRIAN LEUNG: South Korea and Taiwan were previously home to some of the most lucrative specials in 2018 and 2019 accounting for a significant portion of the region's securities lending revenue. The short selling restrictions introduced in 2020 presented significant challenges to the dynamic as loan balances and fee levels saw reductions in these two markets. This however allowed some of that demand to be allocated elsewhere as we saw balances in Japan and Hong Kong increase to compensate for the decline in returns. While the industry is hopeful that the lifting of the ban will help re-energise these markets, we also are optimistic that regulators will recognise the market efficiencies that securities lending has on a well-functioning market, as evidenced by the added liquidity and effective price discovery which undoubtedly would have been beneficial to their investors.

JANSEN CHUA: For the most part, it appears that the market has taken the regional short sale bans in their stride; similar actions have been taken by regulators previously with corresponding changes to the demand profile and revenue expectations.

One of the interesting situations we are currently observing in South Korea as a result of the short-sell ban is a decline in institutional (particularly quant funds) broad-based down-side hedging. In the meantime, the proportion of the Korean stock market owned by retail investors and the corresponding value of the market indices has grown significantly. Given how highly politicised short selling has become locally, it may make exiting the short sale ban a very challenging endeavour for the regulators. Focus has also shifted to affording retail investors the same access to short selling capabilities as institutional investors; a retail-focused platform for short-selling is now being considered, with the short-sell ban extended from March to May instead.

In the meantime, investor attention has turned to APAC markets unaffected by short sale bans, namely China A and to a lesser extent, Taiwan. The progressive liberalisation of China's stock market (through the Stock Connect and the Qualified Foreign Institutional Investor scheme) has seen increasing interest from offshore investors. Onshore Chinese hedge funds have also gathered significant amounts of investor assets over the past 12 months with strong performance results. Since lifting restrictions, Malaysia has bounced back with a strong demand for borrows.

SUNIL DASWANI: APAC securities lending markets suffered the largest year-over-year (YoY) revenue decrease for 2020 compared to other global lending regions across Europe, the Middle East and Africa (EMEA) and the Americas. While much of this decline was attributable to the various short selling bans put in place across specific Asian countries, the largest contributors to revenue in the region, Japan and Hong Kong, also saw significant declines in revenue YoY even without short selling bans in place. The change in relative performance between APAC securities lending markets and EMEA and the Americas in 2020 compared to past years highlights how impactful the short selling bans were to the region's revenue. We have seen revenue increase following the lifting of short sell bans in markets like Malaysia and we expect to see the same occur as some of the restrictions are lifted in South Korea in May.

APAC suffered the worst YoY revenue decrease for 2020 compared to other regions. Was this a one-off?

JANSEN CHUA: The protracted short sale ban in South Korea has certainly created significant revenue drag. Specials activity across the region was also unusually sparse in traditionally strong markets like Japan, Australia, Taiwan and Hong Kong. As an example, short selling activists' reports on Hong Kong securities in previous years would have led to strong borrow demand; however, in 2020, impacted companies appear to have learned from prior examples and managed to change the narrative at a pace and with sufficient confidence that has dampened the demand for shorting.

The reduction in yields in Japan was less impactful than in Europe however the competition from Japanese domestic liquidity providers remains intense, meaning demand during intra-record date periods has become progressively softer over the past few years. Australia and Singapore corporate action activity have also declined given the environment in 2020 but one would hope to see a recovery in 2021.

China has remained a positive story for prime brokers with synthetic access to China A-shares at high premiums driving strong outperformance. We expect this to continue in the medium term as investor demand continues to outstrip stable liquidity.

One would expect 2021 to provide a catalyst to increased revenues in APAC, with a strong initial public offering (IPO) pipeline in Hong Kong, a more favourable environment for corporate mergers and acquisitions and an eventual 'return to the mean' for specials in the region.

BRIAN LEUNG: The aforementioned ban was one key factor in APAC's underperformance compared to its global peers and where the difference was more pronounced could be attributed to the lack of Asia representation in the 'top performers' lists. There was a strong COVID-related theme to this year's highest-grossing names, particularly in the pharmaceuticals, retailing, transportation/travel and technology space. Most were larger corporate players seeing event-driven demand were American or European. With the reinstatement of short selling in South Korea and as the world economy recovers as vaccines roll out, we should see a slow but steady recovery in exposure to the region as investors re-apply risk.

MARK SNOWDON: In addition to the short selling restrictions, of which South Korea played a major part in overall revenue reduction, there was also a lot of short-side risk activity taken off the table. This appeared to be more pronounced in APAC than other regions due to the typical retreating to home markets for international players that we see in times of stress. While it would not be true to say that short-side risk completely disappeared, it was enough to see a huge reduction in the number of specials across the region due to a lack of crowded shorts. Quantitative funds remained active, though they did not make up for the lack of fundamental trading on the short side. The March 2020 crash allowed expensive short positions to be unwound and we did not see a recovery in the volume of specials for the remainder of the year.

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JANSEN CHUA
SENIOR MANAGING DIRECTOR AND HEAD OF SECURITIES FINANCE, APAC, STATE STREET GLOBAL MARKETS

This also translated into subdued activity around corporate events where, despite record-breaking amounts of capital issuance, we did not see many events leading to heavy volume/high-fee borrow activity. Exposure to China did increase but this was via synthetic structures so for traditional securities lending there was little opportunity except some overflow of this to Hong Kong.

SIMONE BROADFIELD: A multitude of negative contributing factors converged across APAC in 2020 leading to the lowest industry performance for years.

The region was the first to feel the global effects of the pandemic and has been subject to long-term geopolitical tensions fuelling investor uncertainty.

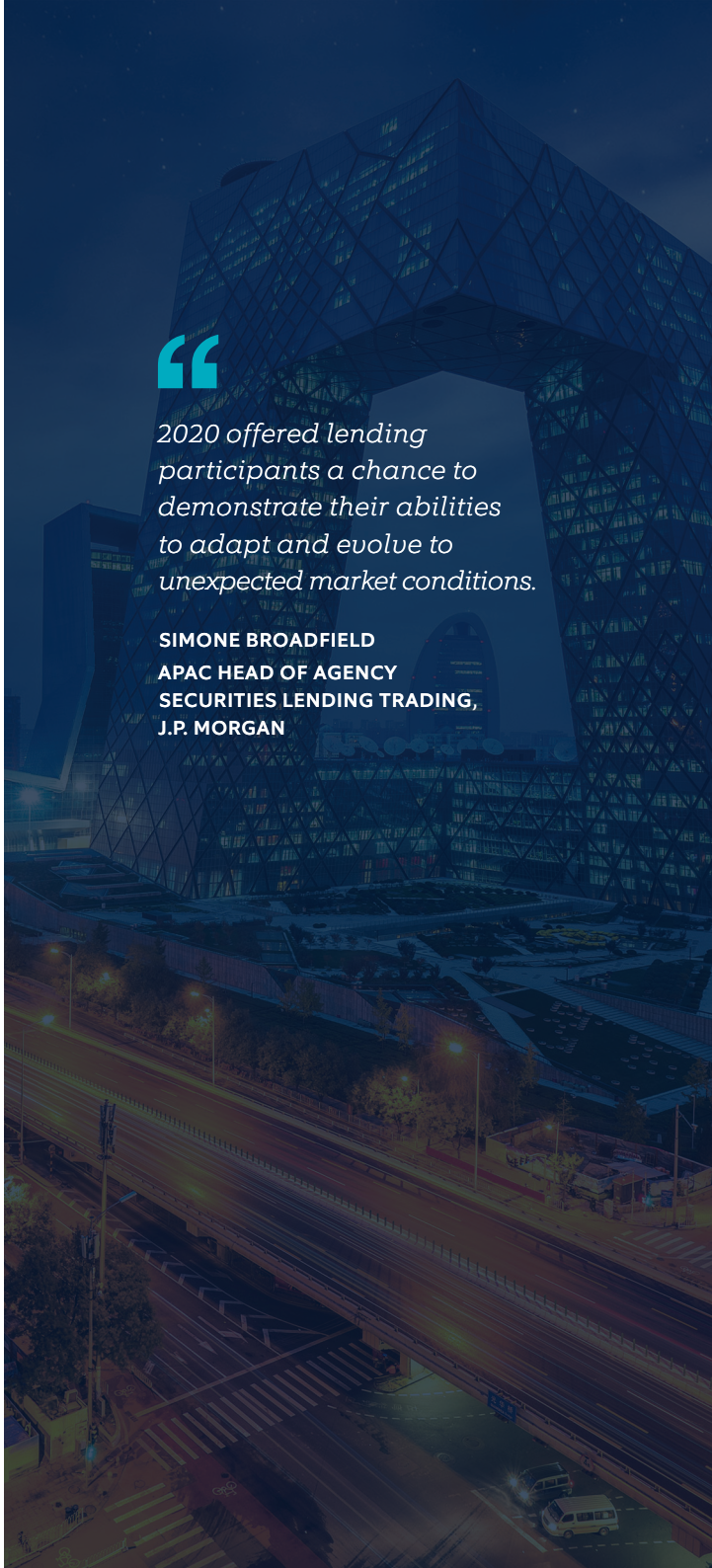
While the resultant market volatility did provide multi-asset lending opportunities, it also prompted regulators to take measures to control liquidity through quantitative easing, the imposition of tighter short selling rules or, in the case of South Korea, the implementation of an ongoing short selling ban.

These measures by default created a more subdued lending environment across some markets which, combined with fund deleveraging and a reduction in volumes across corporate event activities, had a detrimental impact on spreads.

Notwithstanding the above, 2020 offered lending participants a chance to demonstrate their abilities to adapt and evolve to unexpected market conditions. The increasing need to differentiate on both sides of the trade led to a positive divergence in product offerings and trade structures.

The regional revenue figures belie significant market-to-market disparities in revenues, with Japan among the worst performers YoY compared to Hong Kong. What's behind this?

BRIAN LEUNG: Similar to European and American counterparts, Japan was also impacted by the reduction of dividends paid in 2020 as companies saw the need to shore up cash reserves and boost capitalisation ratios to weather the COVID storm. This reduced balances in Japan's traditional peak months of March and September allowing Hong Kong to make up ground, as participants shifted their focus on directional names in the electric vehicle and technology sectors. These areas witnessed market optimism and government policy support which buoyed short interest in names such as BYD, China Evergrande EV and Tianneng Power. Coupled with Sino-US relations fraying in the past year, this led to attractive pockets of opportunity in Hong Kong.



"2020 offered lending participants a chance to demonstrate their abilities to adapt and evolve to unexpected market conditions.

SIMONE BROADFIELD
APAC HEAD OF AGENCY SECURITIES LENDING TRADING, J.P. MORGAN

MARK SNOWDON: Hong Kong has benefitted to some extent by the increased inflows to China as well as short exposure to China-themed ETFs. Hong Kong's stock market fared relatively badly for 2021 losing 3% for the year compared to a stellar performance for other markets – Japan up 16%, Taiwan up 22%. Hong Kong was a much easier market to put short-side risk in compared to markets where the upward trajectory was seemingly incessant. Taiwan managed to fare comparatively well due to the intercompany competition dynamics of that market, particularly in the technology sector where it was probably easier to perform arbitrage activity with some degree of confidence even in a rising market. Japan, on the other hand, faced a rising market without that special dynamic, lack of specials and a reduction in yield enhancement revenues due to cancellation or reduction of dividends by corporates, which resulted in a heavier hit to the securities lending revenue in 2020. Of interest is that the Bank of Japan (BOJ) and the Government Pension Investment Fund are significant shareholders of the Japanese equity market and their market share continues to grow.

A recent article has outlined how much money the BOJ, in particular, has put in the Japanese equity markets (ETFs) as part of their monetary stimulus. This is not something seen in Hong Kong.

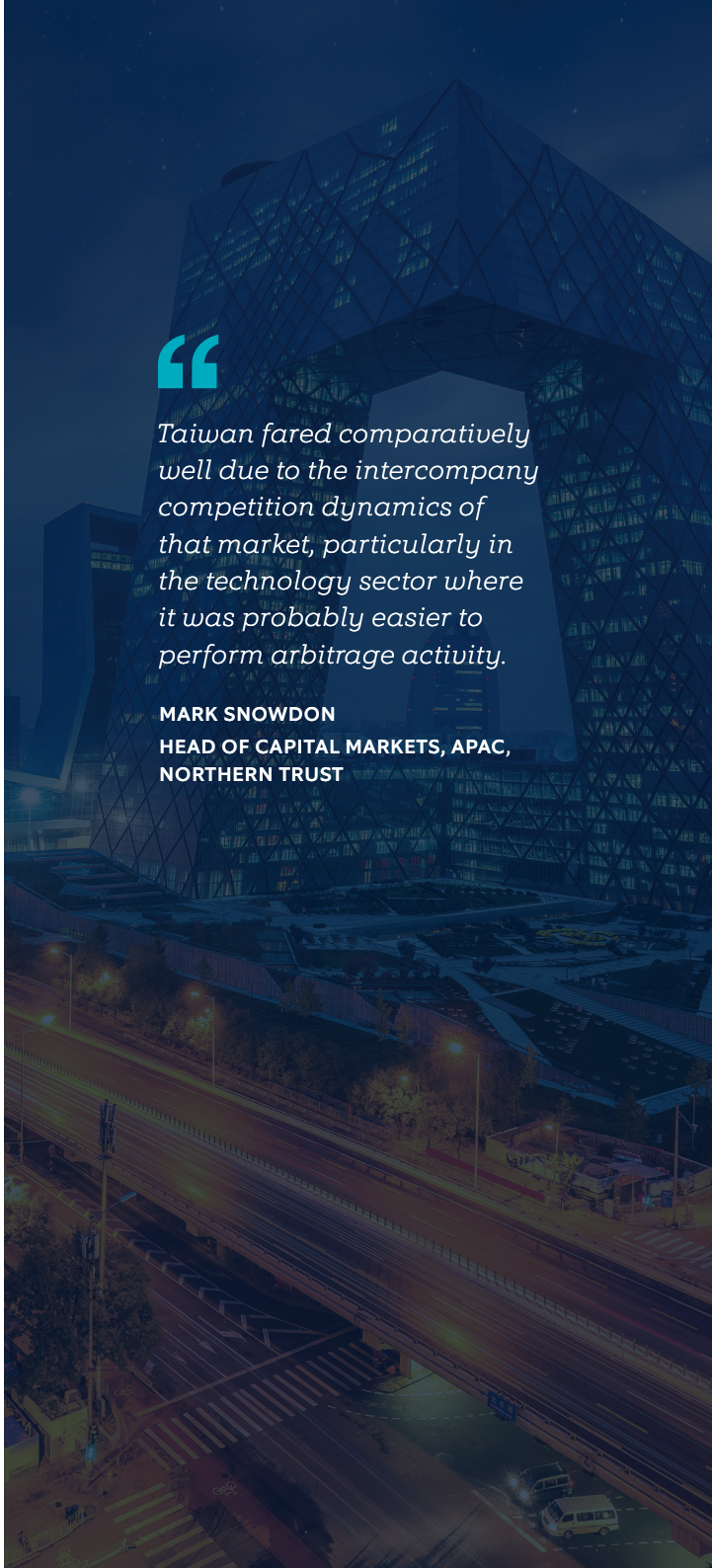
SIMONE BROADFIELD: The Japanese market experienced a significant reduction in specials-driven activity throughout 2020. Reporting season brought with it a handful of cancelled or deferred dividend payments and broadly speaking, we saw less directional trades in play across sectors which were subject to pandemic related stress as compared to elsewhere in the region.

The Hong Kong market recovered relatively quickly from the H1 volatility, benefiting from increased corporate capital raising activities, strong sector-driven demand and longer-term hedging needs specific to Hong Kong-listed Chinese ETFs or A/H share spread trades.

Despite the 2020 industry performance, there were positive signs of a recovery in Q4 and Japan remains a market which consistently offers significant opportunities for growth across multi-asset products within lending.

SUNIL DASWANI: There has been a general lack of shorts in Japan and Hong Kong, which results in fewer securities trading specials and lower fees. Revenue for both large-cap and small-cap Japanese equities, for example, have been trending lower consistently over the past two years. Data shows that small-cap returns are currently at the lowest level they have seen in over two years in Japan.

JANSEN CHUA: Generally speaking both markets have struggled for specials YoY; lacklustre corporate activity in Japan and the waning impact of short sell activists in Hong Kong led to subdued returns. On a YoY measure, Japan looks as though it was impacted more severely. In part, this is reflective of a special stock, Takeda Pharmaceutical, which generated strong returns for Japan in Q4 2018 and Q1 2019. There have since been no similar opportunities to offset that performance. Conversely, Hong Kong has started to see benefits from work previously done by the Hong Kong Exchange which responded to market feedback and sought to restructure their IPO listing rules in 2019/20. Hong Kong saw a strong pipeline of new listings in 2020 and, though not huge long term specials, these presented short term opportunities for securities lending. One would expect that over time the increased capital flow and broadening of the types of companies listed in Hong Kong will foster more trading opportunities.



"Taiwan fared comparatively well due to the intercompany competition dynamics of that market, particularly in the technology sector where it was probably easier to perform arbitrage activity.

MARK SNOWDON
HEAD OF CAPITAL MARKETS, APAC, NORTHERN TRUST

A big story of 2020 was the amendments to China's QFII scheme. How do you expect this trend to progress in 2021 and beyond?

SUNIL DASWANI: We have seen a significant increase in the number of QFII applicants in just the past two months. In November 2020, there were 19 QFII licences approved by the China Securities Regulatory Commission (CSRC) and in December the number was 26. This was explained by major changes to the QFII scheme, including the expansion of investment scope, the flexibility of funding sources and allowing for securities lending and borrowing, all of which have attracted foreign investors to revisit their QFII projects. We expect this will continue into 2021 and beyond.

It's a significant development that under the QFII scheme for securities lending and borrowing is permitted for foreign investors for the first time. Having said that, as foreign investors only account for less than 3% of overall ownership of domestic equity assets, and the majority of these foreign investors are using stock connect to access the market at the moment and are not going via the QFII channel, securities lending and borrowing via the QFII channel will still only account for a small part of these activities.

BRIAN LEUNG: The opening up of China's A-share market is also being highlighted in the newly-refined QFII scheme, in which China has begun to allow CNY-denominated securities lending and bond repos. While it is still a far cry from being a freely-traded securities lending market, we have seen some symbolic securities lending transactions facilitated between QFII HF/PE funds and domestic players. In addition, we have also witnessed a handful of lenders being permitted to accept China A-shares as collateral (via the HK/CN stock connect) which shows the CSRC's willingness to soften its stance on liberalising its currency and securities markets. The next steps would be for the regulator to look at further relaxing restrictions governing offshore securities lending participants, ratios and names which could be shorted via the Stock Connect and by which time we may see a more traditional market begin to develop. We are hopeful that despite the recent sanction issues, international investors should not be discouraged by the benefits that exposure to the Chinese market can provide.

JANSEN CHUA: The direction of travel is positive, and on the face of it, the recent stock lending-related reforms trialled in the STAR (Shanghai) and GEM (Shenzhen) boards provide much optimism for the future evolution of the market.

However, there are several challenges which will likely need to be addressed to promote further development and growth of the market. Firstly, the current model mandates fixed duration of loans and fixed loan pricing, although there are discussions that the regulators are considering moving to a model which will allow bilaterally negotiated terms. Secondly, investors who have traditionally relied on their agent lender in other markets would need to get comfortable with exposure to China Securities Finance (CSF) as the central counterparty. Thirdly, borrowers need to adhere to additional operational complexities such as heightened disclosure of activity, short sale proceeds needing to remain onshore and uptick rules on 'borrowed but not sold' shares which could affect other long positions in the same name. Finally, capital costs (for beneficial owner indemnification), enforcement of collateral interests, high intermediation fees charged by the CSF and the complexity of trading will likely limit scalable solutions in the near term.

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> **SUNIL DASWANI**
> **GLOBAL HEAD OF AGENCY SECURITIES LENDING, STANDARD CHARTERED**

The Stock Connect is the other access channel which has generated significant interest among offshore investors. Despite having established securities lending and short selling rules since its inception, Stock Connect lending activity remains difficult to achieve without significant regulatory or infrastructure change. As an example, the rules allow for an SFC-licenced asset manager, unit trust or collective investment scheme physically located and managed in Hong Kong to participate as a principal lender. However, most investors that fit this requirement have traditionally relied on their agent lenders, with the requisite infrastructure and experience, to help them conduct such activities in lieu of making that investment themselves. The Stock Connect programme today, unfortunately, does not recognise the role or concept of agent lenders.

While the industry continues to lobby for change, the regulators do not appear, at this point, inclined to make the required adjustments which would promote a model more akin to securities lending activity in other markets. These impediments will continue to likely drive synthetic access as the current alternative for hedge fund investors looking for short exposure, with the prime brokers being primary beneficiaries.

MARK SNOWDON: China's economy expanded by 2.3% in 2020, making it the only major economy to report economic growth for 2020 — providing confidence for investors. With steps towards market liberalisation via China A-shares added into MSCI benchmark indexes in 2018 and the subsequent increase in weights in 2019, as well as links developed between onshore and offshore exchanges via Stock Connect, the Chinese market continues to offer big potential for the securities lending industry globally.

The new securities lending and short selling rules are a huge boost to the international securities lending community which has been working toward this step for many years. However, it is very much a work in progress with currently no place in the value chain for agent lender participation. The current rules are also very restrictive and contain many unique requirements which will be a barrier to any meaningful or scalable activity until these nuances are addressed. We would expect in 2021 to see work being done to fine-tune the current offering and perhaps by the end of the year we will see some modest volumes on a day-to-day basis. However, we expect the Chinese regulators will need to be comfortable with each step before introducing any changes, and it may be optimistic to see agent lender participation before the second half of 2022.

Despite being somewhat overshadowed by QFII over the past year, the progress being made to the short selling platform via Stock Connect should not be forgotten. Although interest in Stock Connect has been muted over the past five years, the progress made on QFII could well encourage regulators to revisit this avenue and that could be a game-changer for agent lenders.

DAVID LAI: The amendments announced towards the end of 2020 are a welcome development and should build on the short selling framework that was already in place.

Without a doubt, the Chinese securities lending market has an exciting trajectory ahead. We believe this goes hand in hand with the developments that the Chinese securities markets have witnessed over the recent years with the launch of Stock Connect, Bond Connect and the inclusion of China shares in various global indices, to name a few examples.

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DAVID LAI
PRODUCT MANAGER,
AGENCY SECURITIES LENDING, APAC,
J.P. MORGAN

Additionally, if we look at published data, the Shanghai and Shenzhen stock exchanges are both ranked in the top seven globally in terms of market capitalisation which not only points to the diversity and success of their listed companies but also supports the natural evolution to offer and support hedging strategies.

For now the transactions are limited to a principal set up but with an established and well regarded global agency securities lending programme, J.P. Morgan remains committed and well-positioned to help our clients navigate this new and exciting market.

ESG is a global growth area for securities lending markets and APAC is no exception. What does ESG look like in APAC with initiatives such as PASLA's ESG roadmap to standardisation?

MARK SNOWDON: A relative bright spot in the wake of the pandemic has been the acceleration of environmental, social, and governance (ESG) policies influencing all aspects of investment decisions. This includes how they intersect with securities lending, with a growing number of asset owners and managers now integrating them into the business.

The outcome of a survey conducted by EY on behalf of the Pan Asia Securities Lending Association (PASLA) revealed that ESG has become a key consideration in APAC securities lending practices, albeit with an appreciation that various implementation hurdles are making this easier said than done, and that incorporation of ESG into some programmes is still catching up with the importance that participants place upon it.

There is now work underway by PASLA to create a practical set of guidelines to enable buy-side institutions to integrate their lending programmes with their approach to ESG. The aim is to enable investors to execute a lending programme efficiently while maintaining the focus on ESG policies.

JANSEN CHUA: PASLA conducted two ESG surveys during 2020. From the result, we can see Asian investors looking to take a more proactive approach to manage ESG factors in their securities lending programs. Standardisation of factors remains a point the industry is still working towards; current focus appears to be on issues such as proxy voting and the ability to exclude non-eligible investments in portfolios and collateral schedules. The facilitation of short-selling through participation in securities lending is also another area that we are seeing increasing client interest. We believe short-selling and securities lending provide significant value in terms of the efficient functioning of capital markets, and also in the promotion of a robust governance framework over investment activities.

SUNIL DASWANI: The survey participants overwhelmingly recognised the importance of ESG. The excellent work PASLA did summarised nicely not just where APAC is in relation to ESG, but more broadly, the global view that ESG should apply in the decision-making from end-to-end as it pertains to investments and securities lending programmes. The three key themes identified were: governance; non-ESG compliance as a risk to business; and, the need to have an ESG control system in place.

We, at Standard Chartered, are in complete agreement with the findings of the survey.

DAVID LAI: ESG has become more important in securities lending in APAC and will only continue to grow. An interesting, but perhaps unsurprising, observation is there is no uniformity in approaches. For example, across APAC, we've seen lenders in Australia and Japan take the lead, whereas lenders in other markets are mostly looking to first implement ESG on their direct investments rather than in their lending program.

Within securities lending, some lenders focus on negative screening in their lending programme parameters whereas others place more importance on making informed decisions on when issues are material enough for them to recall loans to vote.

In the absence of regulation, industry initiatives such as those driven by PASLA are certainly helpful in bringing standardisation to an evolving market. Standardisation offers both lenders and borrowers more clarity and comparability and reduces the risk of fragmenting liquidity based on differing ESG benchmarks. How much standardisation the market can converge on remains to be seen, especially given how subjective a topic such as ESG is.

BRIAN LEUNG: Historical examples of ESG from a securities lending perspective have been catered around the governance of the programme. Some examples (and not limited to) are: which securities are eligible to be lent and used as collateral (i.e. no stocks that have inadequate ESG ratings such as tobacco/fossil fuel names); recalling positions for proxy voting or certain corporate events; and ensuring collateral received fits in with beneficial owners' investment criteria.

Market participants (beneficial owners, agent lenders and participants such as triparty agents) should continue to meet together to ensure that the constantly evolving ESG needs can continue to be met. Agreed practices would be around enhancing transparency on the impact of securities lending in the environment, advocate wider law, policy and regulation at a national, regional and global level and finally ensuring there is a pathway for education on ESG and exchanging best practices.

2020 reminded us how difficult it is to make accurate predictions. But, assuming normality returns this year, what are the main trends to watch in APAC?

BRIAN LEUNG: The aforementioned ESG topic will undoubtedly be watched very closely in the upcoming year as the securities lending community will ensure that market behaviour and practices are in line with expectations of the wider investment community. ESG will also be driving appetite and sentiment for sustainability investors so one should expect more opportunities to lend and borrow in highly-rated ESG names.

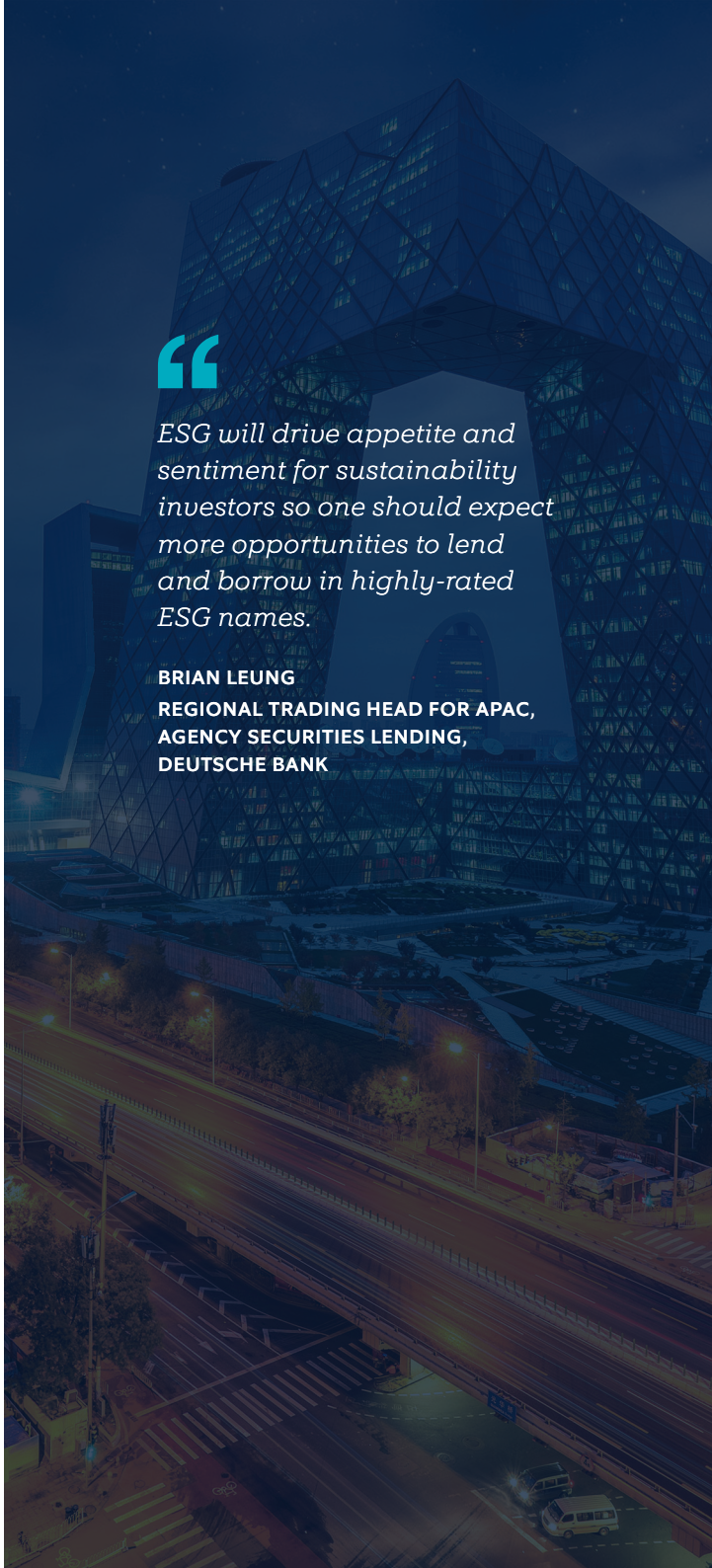
The also previously mentioned short selling bans are expected to be lifted and we should hopefully see a return of demand for South Korean exposure, particularly in the previously popular biotech space. One should not also forget the lookback of 2020 when it came to how participants fared working from home/backup sites and business continuity in a particularly disruptive year. Hopefully, members were well-equipped to handle the pandemic and did not see a marked interruption in deal/lending flow YoY.

As we expect vaccine roll-outs and companies having employees slowly return to work amid the virus recovery, lenders and borrowers alike should be looking to find ways to increase efficiency, be it more automation, adopting more cloud-based solutions or blockchain technology to reduce the operational or in-office workload to ensure that highly-functioning securities lending programmes are maintained.

One can expect outbreaks to sporadically re-emerge thanks to new virus variants and the industry participants' response to it will be of vital importance to ensure all members of the value chain are minimally impacted.

JANSEN CHUA: We expect to see increasing pools of supply to enter the market driven by a search for yield and a shift from active to passive investing. This increasing supply, set against what has been a muted demand profile (as a result of generally poor hedge fund performance as well as increasing prime broker internalisation efforts) will likely have profound impacts on how beneficial owners view lending programme performance and the expectations of future returns, how agent lenders compete for and service these pools of inventory, and how borrowers choose to source their inventory needs going forward.

Capital efficiency, programme flexibility and routes to market are going to become increasingly important differentiation factors for beneficial owners and lending programmes alike. Issues such as the use of indemnification, collateral flexibility, central clearing, and peer-to-peer constructs will likely gain more attention as the impact of capital regulatory change (such as Basel IV) continues to influence prime broker and agent lender (the two intermediaries most impacted) behaviours. We believe the focus on and implementation of technology will continue to drive and enable these changes. Nevertheless, investors need to consider the risk-return implications, in addition to the potential internal infrastructure investment needed, of participating in such facilities.



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> **BRIAN LEUNG**
> **REGIONAL TRADING HEAD FOR APAC, AGENCY SECURITIES LENDING, DEUTSCHE BANK**

We also expect to see the continued maturity of Asian investors. There is increasing internalisation efforts in the investment management function amongst Asian asset owners, some of whom have since also set up investment offices in major financial centres such as New York and London, and have stated ambitions to significantly increase allocations to alternatives (including hedge funds). We view these as positive developments for the industry.

Asia also remains a focus region for global investors. We continue to see promising moves by South-East Asian markets towards developing securities lending infrastructure and are most likely to provide sources of alpha in the next three-to-five years. However, one should caution that the path to a developed securities lending market in these countries is likely to remain bumpy due to complicated local regulations and lack of infrastructure. The potential for China to remain an important engine of growth in the short to medium term as the market continues its path towards liberalisation is a story that is also well traversed.

SUNIL DASWANI: We expect to see South Korea lending revenue return to good levels once the reopening of lending for the top 350 securities resumes on 3 May. Also, the Philippines has reiterated that securities borrowing and lending rules are expected to be finalised in 2021, which may offer new revenue opportunities for some lenders in the coming months, and of course, we all watch closely for further developments in China.

DAVID LAI: Having embarked on a new year, we should note that from a regulatory perspective the industry successfully implemented the latest phases of Securities Financing Transactions Regulation. However, we should remain cognisant of the fact that various other new regulations remain on the horizon.

Additionally, from an educational point of view, I believe it would be beneficial for the industry to look back at the events of 2020 for us to plan for the opportunities ahead.

For example, globally the industry saw various forms of amendments to short selling rules with varying degrees of duration. Most markets have rebounded strongly from their March 2020 lows. So what can be deduced from these various amendments? Is there a common set of principles in times of market uncertainty that can be implemented or is the collective agreement that markets will occasionally be subject to volatility?

MARK SNOWDON: We are likely to see increased volatility as the upward market impetus wakes up to the impact of the pandemic and starts to identify winners and losers. With the conclusion of the US election and the start of the vaccine rollouts there is slightly more economic certainty which should enable hedge funds to put their money to work. This can be seen in the number of placement stocks with strong borrowing demand and take-up, despite seemingly plentiful lending supply.

For example, the demand for Xiaomi Corp (1810 HK) at elevated levels despite there being plentiful availability has shown us that hedge funds have sufficient appetite to put on trades. Hedge funds in Asia had a strong 2020 and their confidence should support further robust sentiment in the coming year. As Asia gradually begins to recover economically, we are likely to see more deal activity such as IPOs, mergers, and acquisitions and potentially a return to pre-COVID dividend payments that will make certain DRP and SCRIP trades more attractive. Additionally, there will be sectors or assets that appear to be overpriced which could lead to more broad-based shorting that may support the specials environment in 2021. Such sectors may include technology and the electric vehicle industry.

We also anticipate a continued push from borrowers to release underutilised regional assets for collateral and a trend toward trading through local entities for increased cost-efficiency.

On the client front, ultimately faced with growing cost pressures and the challenge of generating returns in a lower-for-longer rates environment, asset owners and investment managers cannot ignore the difference that securities lending can make in terms of enhancing portfolio performance and offsetting costs, while also supporting liquidity.

In APAC there is greater recognition than ever before of the need to add the kind of value to a portfolio that a broader securities finance offering promises. A faster return to pre-pandemic levels of economic activity in the region may also spur tactical re-allocations accordingly.

As a result, interconnecting the lending of securities with repo capability and collateral management, for example, will be key to the success of investment firms in the future. Such an approach gives investors a good reason to be optimistic about being able to incrementally add alpha and manage costs more efficiently. Providing a holistic and integrated capability to support this enhanced type of activity will be an important factor to allow lending agents to differentiate themselves.