

PIERPOINT
FINANCIAL
CONSULTING



Securities Lending

What is it?

What you need to know

Why you need to know it

What is it?



WHAT IS IT AND WHY?

Why does it exist?

- Stock and Bond borrowers use the securities to execute a variety of trading strategies and to finance their portfolios
- Securities lending plays a critical role in the “plumbing” of financial markets to improve market liquidity and narrow Bid/Offer spreads

What is it?

- A temporary transaction that **transfers title** of securities from the owner of an asset to another entity in return for a fee

Who does it?

- It’s been used by institutional investors for decades and increasingly by retail investors through their brokers
- It generates extra returns or “alpha” in the form of a rental fee for the securities - \$10 BILLION in direct fees each year

What you need to know



KEY CHARACTERISTICS

- A temporary transaction that **transfers title** of securities from the owner of the asset to another entity in return for a fee
- Securities lending trades are executed under the terms of a **securities lending agreement** and are virtually always **collateralised**
- Original owner of asset maintains economic performance of asset as well as all of the rights of ownership, **EXCEPT for voting rights (more below)**
- Can be closed (“returns” from borrowers or “recalls” from lender) by either side for any reason (with notice)
 - **Lenders can get shares returned at any time in order to vote**
- It’s a basic Supply/Demand business – fees are dependent on the nexus between the demand to borrow and the supply of stocks available for loan



Why you need to know it



WHY YOU NEED TO KNOW IT

Supply available for loan - \$22 US trillion

Value on loan - \$2.6 US trillion

Fig 4: Global Lendable Supply Value - By Fund Type

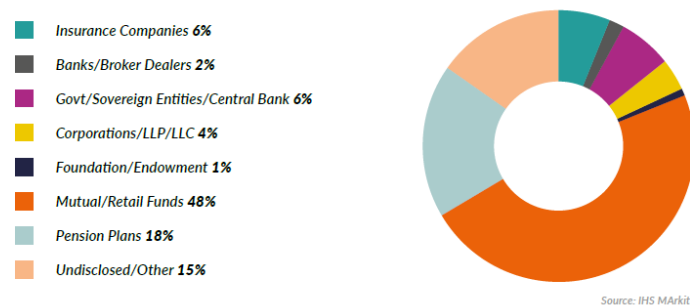
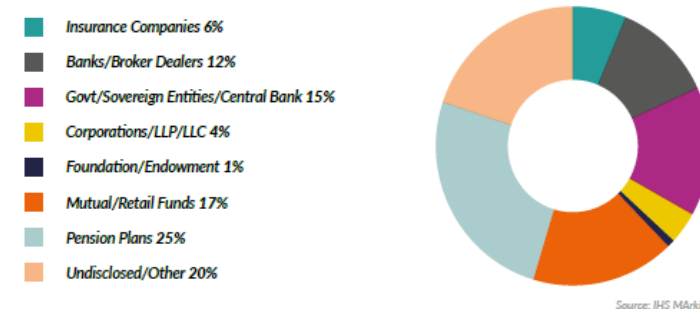
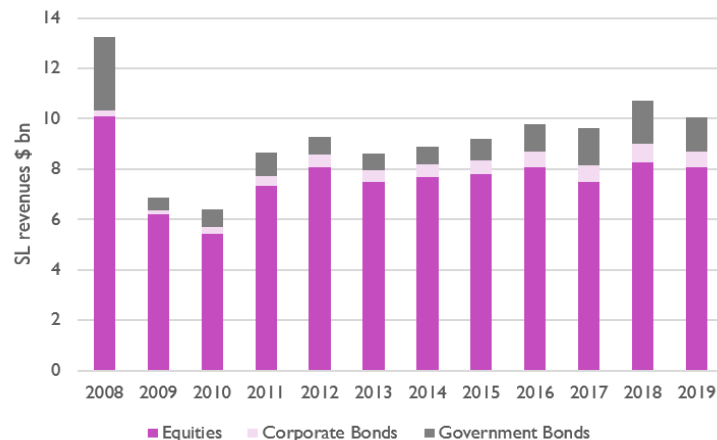


Fig 5: Global Securities On-Loan - By Fund Type



Global Securities Lending Revenues



- Are you an institutional investor and not lending?
 - Your competitors probably are so you are at a disadvantage every day
- Are you an institutional investor that is lending?
 - Great, but is your program optimised to meet your risk tolerance?
- Are you a retail investor that doesn't lend?
 - You are missing out on money you could be making

Fees - ~\$10 billion US per annum

Graph Sources: Doughnut charts IHS Markit in ISLA Securities Lending Report Feb 2020; Global Securities Lending Revenues graph: Data - IHS Markit, Author's graph

Recap



SECURITIES LENDING SUMMARY

- Investors can generate additional income from assets they already own without sacrificing any of the benefits of ownership
- It's a low-risk business that is over-collateralised and checked every day
- It's practiced around the world in approximately 40 countries
- Recognised by regulators as critical to the smooth functioning of capital markets
- More than \$10 billion USD in fees were earned by lenders and their agents in 2019



The Bonus



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Securities Lending Primer

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Image by Gerd Altmann from Pixabay