



A BIRD'S EYE VIEW OF THE MARKET

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CIBC MELLON

Adapting to market changes that help borrowers and agent lenders manage the increasing capital costs associated with securities lending programs will be a dominant theme throughout 2024 and beyond.





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Lisa Tomada is Vice President, Global Securities Lending at CIBC Mellon. Lisa is responsible for leading client service and business development for CIBC Mellon clients seeking to participate in BNY Mellon's Global Securities Lending program. Lisa has over 20 years of financial services experience.

Over the past year, the Canadian securities lending market has seen change consistent with other global markets in terms of trends, market size, and technological advancements. **One notable trend is the concentration of specials, with a lack of sector specials leading to larger than normal fluctuations in securities lending revenue.**

Beneficial owners holding individual securities in demand have continued to perform well, benefiting from this concentration.

BOTH IN THE CANADIAN MARKET AND GLOBALLY, THERE HAS BEEN A TREND OF:



LOWER AVERAGE
FEES



REDUCED LENDING
REVENUE ACROSS
MANY ASSET CLASSES

I was pleased to be featured in an article on the Canadian securities lending market for [Issue 353 of Securities Finance Times Magazine](#). The article entitled, "A Bird's Eye View of the Market," explored Canada's securities lending market and the key drivers impacting the further development of the sector.



This shift underscores the importance of collateral flexibility. In the current market environment, where borrower interest is influenced by regulatory and internal capital requirements, those lending clients who exhibit flexibility in their collateral acceptability tend to achieve higher than average utilization and fee spreads. These clients are better positioned to take advantage of opportunities to participate in loans as borrower collateral requirements evolve.

Global economic events have a significant influence on securities lending in Canada, reflecting broader trends in the global securities lending industry. Typically, we would expect events such as the timing of interest rate cuts and geopolitical instability in the Middle East to increase volatility, and in turn, some borrowing demand. Instead, the global trend of single security specials has driven lower average balances on loan for the year while leading to higher average fees on lending activity. This dynamic highlights the interconnectedness of global economic events and the securities lending market in Canada.

THE SECURITIES LENDING INDUSTRY FACES SEVERAL PROMINENT CHALLENGES AND RISKS, INCLUDING COUNTERPARTY DEFAULT, COLLATERAL LIQUIDITY, AND MARKET VOLATILITY.



COUNTERPARTY DEFAULT

Counterparty default is managed through rigorous credit assessments and the establishment of robust counterparty risk management frameworks.



COLLATERAL LIQUIDITY

The collateral posted by borrowers, cross-product and cross-principal netting all help mitigate counterparty default risk. This collateral is carefully monitored and adjusted to reflect market values on a daily basis.

Ensuring the liquidity of collateral is crucial. Lenders accept a range of collateral types, prioritizing those that can be quickly liquidated if needed and adjusting the collateral levels accordingly.



MARKET VOLATILITY

Market volatility poses a significant challenge by affecting the value of securities on loan and the collateral posted. To manage this risk, lenders employ dynamic risk management strategies, including stress testing and scenario analysis, to anticipate and respond to market fluctuations effectively. By adopting these mitigation strategies, the securities lending industry aims to safeguard against potential risks while maintaining stability and efficiency in lending operations.

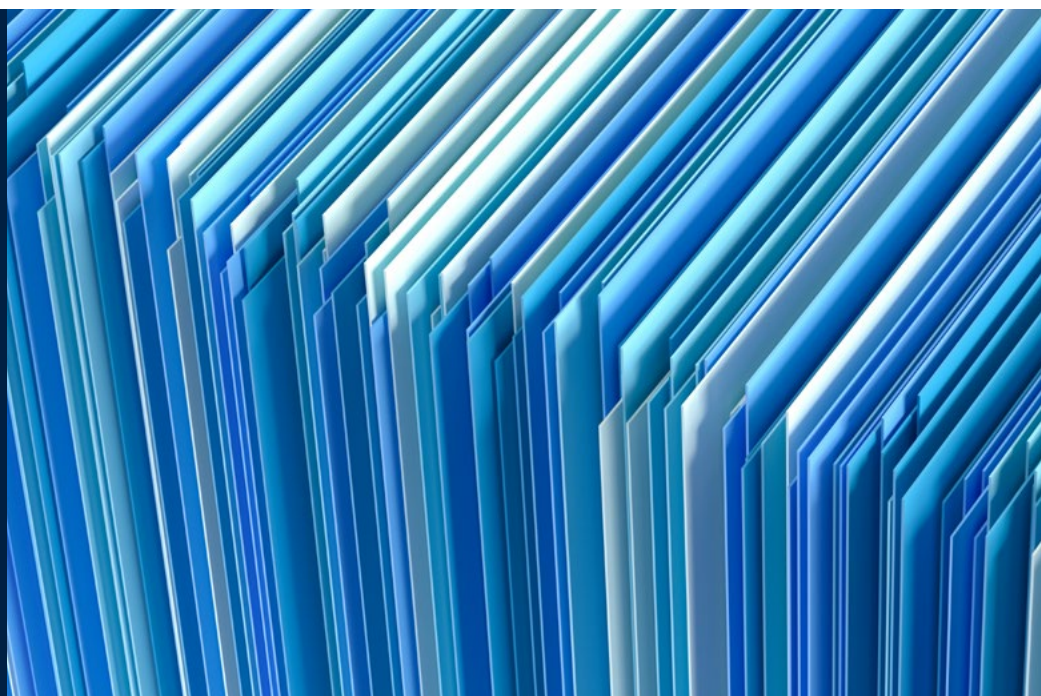
TODAY'S INTEREST RATE ENVIRONMENT IS HAVING A NOTABLE IMPACT ON SECURITIES LENDING ACTIVITIES.

Despite positive results for Canadian banks in the first quarter of 2024, these institutions are setting aside larger provisions for credit losses. This conservative approach has led some banks to eliminate their discounted Dividend Reinvestment Programs (DRIPs). The elimination of discounted DRIP programs is significant because these programs currently represent some of the top revenue-generating securities in the Canadian equity space. As a result, their discontinuation will impact Canadian clients more heavily because of the higher volume of holdings of Canadian bank stocks than other global beneficial owners may have. Moreover, the broader interest rate environment influences borrower behavior, further affecting the dynamics of the securities lending market.



EXPLORE WITH US

We would be pleased to discuss these themes further, including exploring them in the context of our ongoing Canadian and global research efforts. Please don't hesitate to contact your relationship manager to arrange a discussion.





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With T+1 starting in Canada, the U.S. and Mexico, automation and coordination between market participants has been at the forefront of technology and governance around T+1 implementation. Regardless of all the operational improvements that are being ushered in by T+1, beneficial owners continue to be an important part of the process: notifications to agent lenders must come earlier and more efficiently as part of these new settlement timelines. The industry continues to use AI in new ways to help with identifying opportunities and increasing operational efficiency.

The securities lending market in Canada will see change in the coming years. Beneficial owners will continue to seek incremental revenue from their securities lending programs. Adapting to market changes that help borrowers and agent lenders manage the increasing capital costs associated with securities lending programs will be a dominant theme throughout 2024 and beyond. Canadian beneficial owners are becoming increasingly sophisticated. Those who actively engage with their agent lenders as they make changes can continue to benefit from their lending programs. This proactive approach allows beneficial owners to stay ahead of market shifts and optimize their lending strategies.

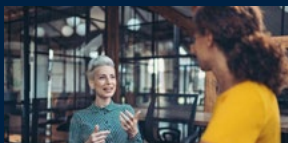
As beneficial owners advance their investment strategies and reporting capabilities, there is a growing desire for meaningful data and enhanced transparency. They are looking for detailed reporting on the status of lent securities and overall program performance to meet their increasing internal governance requirements. This trend underscores the need for robust data management and reporting tools within the securities lending industry. The shift of talent among various market participants, and specifically among beneficial owners, presents an opportunity to discuss securities lending programs in new ways with new faces. From a client service perspective, there is an emphasis on educating new employees or different departments within beneficial owner organizations to get them up to speed with program basics. Simultaneously, detailed conversations are being held within some of the same organizations where new employees bring their securities lending expertise from other environments, fostering a culture of openness to new ideas and perspectives.

Technology remains a focal point as innovation and increased regulation introduces new players, new risks, and new opportunities.

TECHNOLOGY

INNOVATION

INCREASED
REGULATION



NEW PLAYERS



NEW RISKS



NEW
OPPORTUNITIES

The securities lending market will continue to evolve with advancements in technology, which will drive efficiencies, improve risk management, and create new business opportunities for beneficial owners, agent lenders and borrowers.

ADVANCEMENTS IN TECHNOLOGY



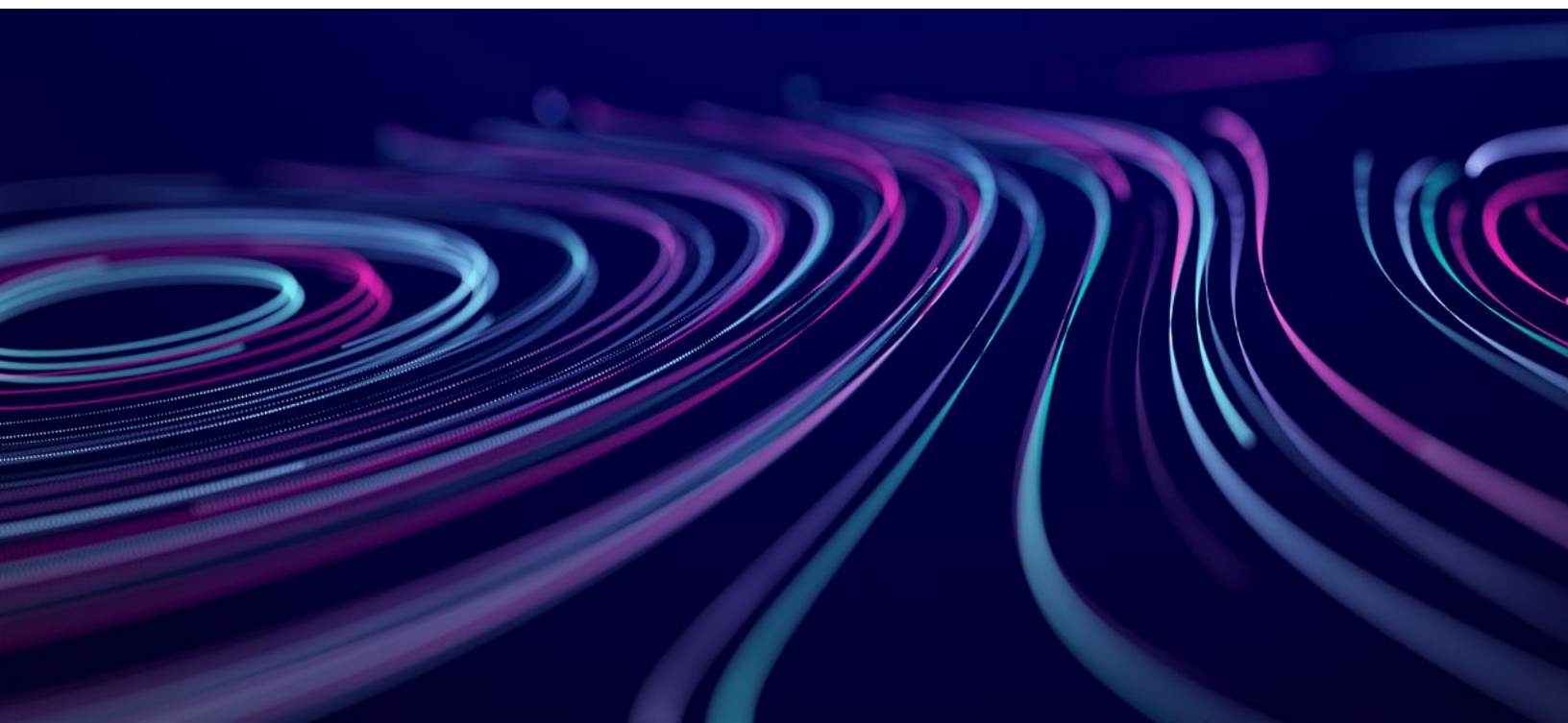
DRIVE
EFFICIENCIES



IMPROVE RISK
MANAGEMENT



CREATE NEW
BUSINESS
OPPORTUNITIES







FOR MORE INFORMATION

CIBC Mellon is pleased to engage with clients on this front and continue the conversation. Please contact your Client Manager if you would like more information.



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