



## Securities Finance: August 2020

Tuesday, September 8<sup>th</sup>, 2020

### \$649m in August securities lending revenue

- August revenues decline by 22% YoY
- Sharp decline in North America equity lending revenues
- EMEA equity revenues increase YoY
- Lowest monthly revenue YTD

Global securities lending returns declined by 22% YoY in August. US equities were the largest contributor to the shortfall, as special balances continued to decline from the YTD peak in June. August was the fourth month of 2020 to deliver less revenue than the 2019 comparable and the first since May. The August shortfall puts QTD revenue at \$1.5bn, a 9.9% YoY decline. To some degree the decline could be anticipated, with US equity revenue trending down steadily over the month of [July](#), however the magnitude was startling. Lower M&A and new issuance activity contributed to the sequential decline, though likely seasonal with some high-profile IPOs expected this Fall; Some formerly lucrative lending opportunities relating to arbitrage trades earlier this year have also concluded. In this note we review some of the drivers of global lending income in August.

#### Global Securities Lending Snapshot - August 2020

Asset Class	SL Revenue (\$M)	Rev YoY %Chg	Avg Balances (\$B)	Bal YoY %Chg	Avg Fee	Fee YoY %Chg	Avg Utilization	Util YoY %Chg
All Securities	\$649	-22%	\$2,070	2%	0.37%	-24%	6.5%	-8%
Americas Equity	\$220	-35%	\$455	-8%	0.57%	-29%	3.0%	-25%
Asia Equity	\$118	-23%	\$205	4%	0.68%	-26%	5.5%	-7%
EMEA Equity	\$106	5%	\$181	12%	0.69%	-6%	5.0%	10%
ADRs	\$15	-58%	\$30	25%	0.57%	-67%	7.3%	-14%
Exchange Traded Fund	\$30	11%	\$57	-1%	0.62%	11%	9.9%	-12%
Government Bond	\$117	2%	\$946	8%	0.15%	-6%	23.1%	9%
Corporate Bond	\$34	-32%	\$175	-11%	0.23%	-24%	3.6%	-20%

Note: Includes only fee revenue

© 2020 IHS Markit

August was the first month of 2020 to have the most revenue generating security be a European equity. German equity lending revenue has been bolstered by hard to borrow shares YTD, with Varta Ag delivering \$11.9m in August revenue. EMEA was the only region for equities to deliver YoY growth in August; Germany represented most of the growth, the rest of EMEA combined for 15% YoY decline in August revenues. A pair of equities listed in the Netherlands also appear on the top

revenue generating equities for August, NN Group Nv and Unibail Rodamco Westfield Se, which led Dutch equity lending revenues more than doubling YoY. The boost to July revenues, partly from delayed dividend record dates, along with the increase in German & Dutch revenues in August puts EMEA QTD revenues at \$248m, a 14% YoY increase.

Americas equity revenues came in at \$220m for August, a 35% YoY decline, however the \$656m QTD total only reflects a decline of 9% YoY. US equity revenues tumbled in August after stellar returns in June and July. Share borrowing related to convertible, merger and warrant arbitrage led in the prior months but had already substantially trailed off by the end of July; August offered limited special situation lending opportunities. US equities delivered \$194m in August revenue, a 30% YoY decline. Despite the sharp decline in August there is cause for optimism heading into the Fall with several firms planning to go public via IPO or SPAC, which will likely result in elevated fees. It's also worth noting that the YoY shortfall in US equity returns was partly just a function of Beyond Meat (BYND) delivering \$48m in August 2019, excluding that the YoY decline was 'only' 16%; BYND generated \$65M in September of 2019, which will make the YoY comparison even more challenging next month. Canadian equity lending revenues also declined sequentially and YoY, with the Cannabis related returns declining steadily as increased issuance translated to additional lendable shares and lower fees. Canadian equities have delivered \$65m QTD, a 45% YoY decline.

### Top revenue generating equities for August 2020

Ticker	Name	SL Revenue	Market	Industry Group
VAR1	Varta Ag	\$11.9	DE Equity	Capital Goods
NN	Nn Group Nv	\$6.6	NL Equity	Insurance
LHA	Deutsche Lufthansa Ag	\$6.3	DE Equity	Transportation
AMC	Amc Entertainment Holdings Inc	\$6.1	US Equity	Media and Entertainment
CVM	Cel-Sci Corp	\$5.4	US Equity	Pharmaceuticals, Biotechnology & Life Sciences
AXDX	Accelerate Diagnostics Inc	\$5.1	US Equity	Health Care Equipment & Services
V	Visa Inc	\$5.1	US Equity	Software & Services
URW	Unibail Rodamco We Stapled Unt	\$4.3	NL Equity	Real Estate
INSG	Inseego Corp	\$4.0	US Equity	Technology Hardware & Equipment
WEED	Canopy Growth Corp	\$4.0	CA Equity	Pharmaceuticals, Biotechnology & Life Sciences
819	Tianneng Power International Ltd	\$3.8	HK Equity	Automobiles & Components
MAC	Macerich Co	\$3.7	US Equity	Real Estate
ESPR	Esperion Therapeutics Inc	\$3.0	US Equity	Pharmaceuticals, Biotechnology & Life Sciences
VALPQ	Valaris Plc	\$3.0	US Equity	Energy
OTRK	Ontrak Inc	\$2.9	US Equity	Health Care Equipment & Services
WLL	Whiting Petroleum Corp	\$2.8	US Equity	Energy
INO	Inovio Pharmaceuticals Inc	\$2.6	US Equity	Pharmaceuticals, Biotechnology & Life Sciences
CCL	Carnival Corp	\$2.5	US Equity	Consumer Services
GLJ	Grenke Ag	\$2.3	DE Equity	Diversified Financials

Source: IHS Markit Securities Finance

© 2020 IHS Markit

Asia equity lending revenues continue to fall short of 2019, with August revenues of \$118m reflecting a 23% YoY decline. The largest market, Japan equities, delivered \$47m in August revenues, a decline of 28% YoY, though also an 8.6% improvement compared with July. Hong Kong equity lending revenues slipped in August, with \$27m in revenues the lowest monthly figure since April. The short sale ban in South Korea continues to limit lending revenue, with \$13.5m in August revenue being the lowest for any month of 2020 and reflecting a 52% YoY decline.

Global ETF revenues were \$29.8m for August, an 11% YoY increase, however it is also the lowest monthly revenue for the asset class since February. The lower returns are the result of declining on-loan balances, average fees increased 11% YoY and at 62bps remains in a similar range to June and July. Global ETF utilization in August extended the trend lower from the March peak, as borrow demand failed to keep pace with the growth in lendable assets. There has also been a dearth of hard to borrow ETFs with any significant balances; The most revenue generating fund globally, Chinaamc Csi 300 Index ETF, generated less than \$2m in August.

Corporate bond lending revenues continue to be lacklustre. Corporate lending returns came in at \$34.4m for August, a 33% decline YoY. Corporate bond lending revenues declined during Q1 and have been consistently near \$35m per month since. Central bank support for global credit has dampened borrow demand while lendable value has increased steadily since April, causing utilization and spreads to decline.

Government bond lending activity has substantially returned to pre-COVID levels in terms of spread and reinvestment revenue. Global government debt lending revenues totalled \$117m in August, a 2.1% YoY increase resulting from larger on-loan balances while average fees declined by 5.8%. Fee-based revenue for US government bond lending came in at \$67m for July, a 1.8% increase YoY. From the peak revenue in April, the downtrend in spread returns for UST lenders has been steady, with August delivering the lowest monthly return since February. Returns from lending European sovereigns were \$39.6m for August, a 7% YoY increase and the most revenue for any month since March.

## **Conclusion:**

Global securities finance revenues decreased 22% YoY in August, a particularly challenging month following stellar returns in June and July. The trend for US equities remains to the downside, with the last week of August having the lowest revenue for any week in the month for the largest contributor to global returns, which was also the case for July. Global Utilization of assets in securities lending programs has been on a stead downtrend after spiking in March, with August having the lowest average globally for any month YTD. Despite the recent challenges there is cause for optimism in

terms of corporate action related trades which are likely to materialize this Fall. YTD global returns are down 6% through August.

Stay tuned for monthly revenue updates from IHS Markit Securities Finance!

**Samuel Pierson**

Director | Securities Finance  
675 Atlantic Ave | Boston, MA 02111  
[samuel.pierson@ihsmarkit.com](mailto:samuel.pierson@ihsmarkit.com)

DISCLAIMER: The information contained in this presentation is confidential. Any unauthorized use, disclosure, reproduction or dissemination, in full or in part, in any media or by any means, without the prior written permission of IHS Markit or any of its affiliates ("IHS Markit") is strictly prohibited.

Opinions, statements, estimates and projections in this presentation (including other media) are solely those of the individual author(s) at the time of writing and do not necessarily reflect the opinions of IHS Markit. Neither IHS Markit nor the author(s) has any obligation to update this presentation in the event that any content, opinion, statement, estimate or projection (collectively, "information") changes or subsequently becomes inaccurate.

IHS Markit makes no warranty, expressed or implied, as to the accuracy, completeness or timeliness of any information in this presentation, and shall not in any way be liable to any recipient for any inaccuracies or omissions. Without limiting the foregoing, IHS Markit shall have no liability whatsoever to any recipient, whether in contract, in tort (including negligence), under warranty, under statute or otherwise, in respect of any loss or damage suffered by any recipient as a result of or in connection with any information provided, or any course of action determined, by it or any third party, whether or not based on any information provided.

The inclusion of a link to an external website by IHS Markit should not be understood to be an endorsement of that website or the site's owners (or their products/services). IHS Markit is not responsible for either the content or output of external websites.

Copyright ©2020, IHS Markit. All rights reserved and all intellectual property rights are retained by IHS Markit.