

BNP Paribas



Photo: Ed Alcock/MYOP

*Benoit Uhlen,
BNP Paribas
Securities Services*

BNP Paribas developed its role as a leading securities lending provider for central banks by widening the services it offers official institutions in 2019, while also offering new approaches to meet environmental, social and governance (ESG) criteria. Notably, in 2019, the bank upgraded its global trading platform and is now capable of loaning assets around the clock globally five days a week. A new trading desk for agency lending is also being set up in Hong Kong to complement existing desks in New York, London and Sydney. All centres handle multi-asset portfolios, making the French bank attractive to institutions holding non-domestic lendable assets.

“The lending service we offer our clients is truly global. Assets held by our European clients can be lent through any of our global trading desks to a wide range of borrowers, irrespective of borrower region and location,” says Benoit Uhlen, global head of business development and solutions at BNP Paribas Securities Services. “Our global approach enables us to access demand, optimise distribution and maximise opportunity for our clients across the globe.”

The new global model allows BNP Paribas’s London desk to delegate trading responsibilities for any European client with US assets to its New York desk, which can lend those assets to domestic US borrowers. Through this system, the bank achieves higher volumes and better levels by lending to the end borrower – as it no longer involves lending through intermediaries based in Europe.

“The main principle is that our clients’ coverage is no longer determined by the domicile of our clients, but by the domicile of their lendable assets,” says Uhlen. “Thanks to it, we are showing very competitive levels of utilisation.”

This global strategy contributed to BNP Paribas securing a new contract with a Eurosystem central bank for lending its US dollar-denominated assets.

Higher utilisation is helpful to some central banks, particularly in the persistently low- and negative-yield environment. “Due to negative yields, sometimes it is worth for us to pour cash in a master account, rather than making an investment,” explains Robert Rekasi, head of foreign exchange reserve management at the Central Bank of Hungary, which is not part of the Eurosystem. “Rather than increasing the size of our programmes, we prefer those agents who offer bigger utilisation rates because this is the driver of revenue creation.”

Long-term relations Securities lending became increasingly important for Eurosystem central banks after the European Central Bank launched its asset purchase programme in 2015. As these institutions expanded their balance sheets by acquiring bonds in the secondary market, they set up lending programmes in a bid to monetise these holdings without increasing risk exposures.

BNP Paribas has served the National Bank of Austria (OeNB) since April 2015.

The ECB imposes some restrictions on programmes linked to its sovereign debt buying – for instance, central banks are not allowed to accept equities as collateral.

“There is a clear mandate to buy assets. There is a clear mandate to offer them on the repo market. So there is not much opportunity to actively manage this programme,” says Harald Müller, deputy head of the reserves division at the OeNB. Nonetheless, in spite of these limitations, “what BNP Paribas is showing on the market, the volume lent out, the returns, and costs structure ... is very satisfying for us”.

BNP Paribas also offers greater flexibility, working with the OeNB on some of its other portfolios where it can accept top-segment equities as collateral and be more flexible with the haircuts it is willing to accept. “They offer quite a broad way to adapt to our needs, to cover our needs,” says Müller. “We have monthly calls on results and market developments. And at least once, usually twice or three times a year, we have an amendment to our contract to react to whatever happens. So this is quite actively managed.”



Photo: Ed Alcock/MTOP

*Eric Deudon,
BNP Paribas
Securities Services*

Another example of BNP Paribas’s proactive approach is the proposed alignment of securities lending programmes with ESG principles. For instance, applying them in the counterparty selection process or in the exclusion of incompatible collateral.

“There has been a sharp change in this regard, with practically the entire lending community becoming much more conscious and aware of ESG principles,” says Eric Deudon, global head of market and financing services at BNP Paribas Securities Services.

The two main segments involve selecting counterparties based on ESG criteria as well as the collateral provided – although no central bank client of the French bank appears to have yet put in place collateral screening of securities lending based on ESG principles.

“Traditionally, in the securities lending market, clients have been applying their own specific criteria with respect to restricted lists of securities for lending,” says Ross Bowman, global head of securities lending client management at BNP Paribas Securities Services. “What we are now beginning to see is a greater focus on the securities that clients are willing to accept as collateral – and not just those securities that are lent collateral, and not just the lending of those stocks. Central banks can get a little bit more involved not just in the lending of the fixed income securities, but on the collateral they take on the back.”

The challenge facing service providers is that every client has its own interpretation of what is a good ESG score or benchmark, with some institutions more sensitive to carbon footprints and others to ethical practices. However, as a service provider, BNP Paribas succeeds in adding value to its clients by offering new options. As the OeNB’s Müller says: “It is good for me to know that BNP Paribas is taking care of it. It is good to know that I can exclude, at any time, any issuer when there is a need. And it is also good to know that if I want to change rules or to install some quality needs on the collateral accepted, I can do that as well.” □



*Ross Bowman,
BNP Paribas
Securities Services*

ESG alignment