

# SECURITIES LENDING IN THE AMERICAS 2020



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In a recent interview with Global Investor ISF, Mike Saunders, Head of Agency Lending in the Americas, and Andrew Geggus, Global Head of Agency Lending Trading at BNP Paribas Securities Services, explore the bank's commitment to securities finance and its approach with the Americas market.

## BNP PARIBAS PREPARES TO GAIN MARKET SHARE IN THE AMERICAS

BNP Paribas has made a significant commitment to securities finance in recent years, increasing its headcount and geographical presence while expanding its product offering through substantial, strategic investments. The objective is to extend their client base of beneficial owners by leveraging its agency lending programme. The bank's commitment to expanding in the Americas is opportunistic and the enhancements to the programme have BNP Paribas well positioned to provide a securities lending offering to institutional clients.

"This is happening at a time when many of our peers are substantially reducing their investment in securities finance, either through headcount reductions, contractions in the scope of offerings or an increase in fee structures," says Mike Saunders. "Our presence in New York, London and Sydney with Hong Kong to follow soon, have provided sophisticated institutions with leading securities lending services for several decades. Our ambition is to leverage this track-record to grow our client base in the Americas. We've developed a dynamic offering tailored to institutions seeking a risk-protected return on often under-utilized assets." The presence of BNP Paribas in these locations enable the efficient distribution of assets for clients, who benefit from enhanced execution and asset utilisation.

The BNP Paribas programme has also made substantial progress on the product development front to meet the growing demand of client needs. Products such as multi-currency cash collateral reinvestment - which allows clients to transact on a cash as well as a non-cash collateral basis across major market currencies - are now available globally. This was particularly relevant during the market turmoil of March when clients historically restricted to non-cash collateral were able to pursue cash collateral opportunities. "The flexibility to provide clients with optionality regarding the collateral framework is paramount to extracting maximum value for a client program," says Saunders.

BNP Paribas has noted growing interest in third party lending over the last 18 months, particularly among large, sophisticated institutions as well as asset managers using multiple agent lenders.

**"We now have the resources to provide a best-in-class client service irrespective of location or portfolio make-up",** says Andrew Geggus.

"Whether they are a US-based buyer with an APAC-focused mandate or an APAC-located client with a US portfolio, we can offer a broad-based service for all clients." The bank is optimistic the trend of third party will continue as institutions utilize multiple lending agents. "BNP has the bandwidth too seamlessly and quickly on board these clients to monetize the assets of a client portfolio. We feel the dynamic offering of the BNP Paribas programme will add immediate value to many institutions seeking a new lending provider," adds Saunders.

In addition to expanding their product offering, BNP Paribas has implemented a series of enhancements in their transaction execution framework. BNP Paribas has committed considerable resources to developing an internal proprietary trading layer. "This has changed the way our business operates," says Saunders. "We have implemented an automated locate system that will continue to evolve in terms of execution capability and reporting as well as the ability to provide data to clients directly." Certainly BNP Paribas is not unique in this regard



# BNP PARIBAS

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in their efforts to harness automation. However, the investment and prioritization is worth highlighting.

The platform will receive locate lists from clients, check those securities against available inventory, available credit, proper agency lending disclosure, and approvals as well as the available lendable supply and then book those transactions automatically and send the fill back to the client within a matter of seconds.

"Our investment in a propriety execution platform is exciting. The technological developments removes the manual processes on low margin, high volume trades so from a resource perspective we are able to improve response rates, increase volumes and efficiently meet the growing needs of our clients and counterparties. The benefits are clear as members of the desk can concentrate on where the opportunities are - whether that is re-rating securities, opportunities around corporate actions or spending more time with our trading counterparties and clients," says Saunders. Geggus observes that BNP Paribas is working on an aggressive technology roadmap, incorporating the latest artificial technology and machine learning techniques to allow traders to focus on adding value and how risk is priced in portfolios. "The system will increase its knowledge and expertise as we use it," he adds. The programme will continue to leverage technological solutions to provide faster execution, increased transparency and an overall better experience for participants.

BNP Paribas has invested considerable resources in its Latin American growth strategy, developing its presence in Colombia to serve as a gateway to the region while building upon the bank's presence throughout Brazil. "Opportunities are starting to come across our desk now that we have a maturing business in the region, specifically from many of the large beneficial owners throughout South America," says Saunders. "Before we had that presence it was difficult to penetrate the region. The BNP Paribas programme will continue to develop throughout the region, leveraging the investments throughout Colombia and recently Mexico City." All of this complements the recent acquisition of the middle office and fund administration business of Janus Henderson in the US - BNP Paribas is committed to establishing a presence in the Americas clearly. The investments are substantial and will ultimately lead to a growing market share so the bank envisions. "We are always looking to leverage the presence of the bank globally to identify opportunities. As the bank's presence in specific regions becomes more seasoned, we anticipate our agency lending business will grow in lockstep. We have a phenomenal story to tell in the region and an impressive track record globally with the backing of an extremely well capitalised banking institution."

**"We endeavour to expand our client base in the Americas region aggressively",** added Saunders.

Securities lending is not for every institution. Where BNP Paribas believes it adds value is identifying opportunities for clients that have the right assets or where they can increase their performance because the bank has the capacity to lend a specific asset class in a manner that is in line with the client's risk tolerance. Flexibility and a customized approach are two critical elements to consider when designing and implementing a lending program. "In our securities lending offering we have developed a means to generate additional revenues for the client, while using the financial strength of BNP Paribas to provide a robust form of indemnification to the client to protect them from potential losses related to counterparty default," says Saunders.

He adds there are far too many participants engaged in securities lending with below market performance. This may consist of portfolios of main equity indices or portfolio holding HQLA that are being underutilised by a beneficial owner's current provider, indicating that the business in the US has the capacity and the bandwidth to achieve respectable returns for the client. "If you look at official institutions that may have large portfolios of high quality liquid assets, this is a prime example of how we can utilise our financial strength and our risk-averse mindset to generate liquidity as well as returns for these institutions," says Saunders. "The same would be true for asset managers."

Coronavirus has presented Geggus with a challenging introduction to the business since he joined in February. However, he says this has enabled him to understand the bank's robust risk framework and its ability to adapt quickly to change. "I have been particularly impressed by our ability to assist our clients during this crisis, address their concerns and manage their portfolios," he concludes. "At a time of unprecedented uncertainty we are committed to developing the business and I believe this will benefit our clients substantially. As a programme, we want to be aggressive and build our program to be a best-in-class product. We have a dynamic offering which we feel can have an immediate impact for programme participants".

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