Securities lender of the year

J.P. Morgan

The switch to a local booking model has been an ongoing feature of the Asia-Pacific derivatives markets in recent years as firms seek to benefit from the lower risk-weighted capital charges this approach brings.

In response to this trend, J.P. Morgan's securities lending team has been on a multi-year journey to repoint their business to a new model that enables trades struck in the region not only to be booked there, but managed locally through the whole stage of the process as well. For the successful implementation of this strategy it has been awarded *Asia Risk*'s securities lender of the year.

"We have invested in the business over the last couple of years. In terms of headcount across Asia, this means we have representation across the full components of our business. Whether it is trading, product development, sales, relationship management or technology, it all sits within the region," says David Lai, Asia-Pacific product manager for agency securities lending at J.P. Morgan.

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"This means we have decision-making ability based in Asia, which gives us nimbleness and speed to market, supporting the product range and number of entities we can face."

J.P. Morgan has been an active player in the securities lending sector for more than 40 years, and has recently seen significant growth in lendable assets and on-loan balances for clients in Asia-Pacific. Over the decades its Asian presence has morphed into 120 full-time staff supporting clients in 11 different countries, lending fixed income and equities to banks and broker dealers across two trading hubs.

In 2019, this strong regional presence enabled J.P. Morgan to become the first global agency securities lender to add Korean Treasury Bonds to its list of acceptable collateral – two years after it started accepting Korean equities. And it wasn't just Korean bonds it added to the mix: it also brought Hong Kong and Singapore government securities onto its programme to give the bank a collateral set that it terms the 'Asia Six'. These are government and treasury bonds from Australia, Hong Kong, Japan, Korea, New Zealand and Singapore.

"We are particularly proud of the initiative to accept Korean treasury bonds. We understand J.P. Morgan was the first global agent lender to accept this type of collateral," says Edward Bond, Asia-Pacific head of trading services.

"Government and treasury bonds are particularly relevant. Fixed-income teams at our counterparties tell us that one of the things they want from their agent lenders is the ability to have a flexible collateral set. In response to this, J.P. Morgan can accept the Asia Six," he adds.

According to Bond, the Asia Six collateral set means brokers can sweep government securities from any of those locations into a single financing trade. This not only gives the firm greater flexibility in terms of product offering, but also supports printing higher margin trades for clients.

From a regulatory perspective, September 2019 saw the introduction of the fourth phase of the initial margin rules, a change that, while only applying to very large buy-side players, is operationally complex and also a dry run for the fifth phase, which is likely to require most investment firms to collateralise their derivatives trades.

In response to the changing margin requirements of buy-side clients, J.P. Morgan developed the Collateral Transport concept, which it piloted with a large Australian asset owner. Collateral Transport enables the firms to cover tri-party financing and segregated initial margin obligations via the securities lending platform. This is done by adding unutilised assets in custody to the asset owners' lendable pool.

This system works by coordinating aspects of the agency securities lending programme with the tri-party agent, which then delivers or recalls assets in the event of a sale or suitable lending opportunity, enabling J.P. Morgan's clients to maximise the use of idle assets while meeting their regulatory margin requirements.

"For clients subject to the upcoming uncleared margin rules, we will help them optimise their portfolio of securities by giving them a holistic view of their inventory and margin requirements, which we then support with their collateral agent," says Bond.

He adds that, on the lending side, this ensures that clients get maximum intrinsic value on their portfolio because, in the event that the collateral would be better used elsewhere, the bank would be able to facilitate this.

"We see Collateral Transport as a real opportunity for our buy-side client base to optimise their portfolio as they are increasingly being impacted by regulatory changes to margin rules," says Bond. ■