

# Press Release



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## **BNY Mellon Asset Servicing study highlights shifts in securities lending model due to evolving risk, transparency and regulatory considerations**

NEW YORK & LONDON, August 11, 2009 – Having been turned on its head by the events of 2008, the business of securities lending is evolving towards a new paradigm, according to a new BNY Mellon Asset Servicing research paper. In particular, fresh dynamics are emerging around inventory and collateral management, while the role of the agent lender is being recast.

The new study – *Resetting the Roadmap: Managing in a New Securities Lending Environment for Beneficial Asset Holders* – was produced in conjunction with independent research and consulting firm Finadium, drawing on Finadium's ongoing research in custody, securities lending and prime brokerage, including interviews with 34 leading public, private and non-profit funds managing nearly \$747 billion in assets.

In addition to confirming the tentative recovery now taking place in the securities lending market, the study draws a number of conclusions:

**The role of the agent lender** – a greater attention to risk will translate into closer working relationships between asset holders and agent lenders, with the agent in some ways becoming more like an equity agency brokerage and less a utilization manager. This process is already occurring, as brokers can no longer commit large portions of their balance sheet to general collateral borrowing.

**Regulation** – regulators are moving forward to place securities lending in a more clearly defined category within financial markets. There is recognition of the liquidity benefits of lending and short-selling, but regulators are also beginning to think that securities lending is both a market to be regulated and a means of identifying trading patterns in underlying products.

**Transparency** – Regulators have also begun to shift their attention towards increasing transparency in the securities lending market, a trend that may be accelerated with the advent of electronic securities lending marketplaces and central counterparties.

**Distinct opportunities and risks for both cash and non-cash collateral** – an increased use of non-cash collateral has resulted in benefits arising from portfolio diversification but has heightened concerns around loan pricing. While most institutions have already migrated towards a conservative portfolio or are moving in that direction, this has not meant a wholesale retreat from the market: only 31% of funds surveyed changed their securities lending behaviour as a result of collateral losses.

**The re-emergence of the 'intrinsic value' model of securities lending** – an older industry standard, this model produces returns based upon the securities loan itself, with little incremental benefit from collateral reinvestments. However, the study notes that "intrinsic value is not for everyone" and utilising a portfolio with a view to maximising collateral returns "continues to be appropriate for some lenders."

Josh Galper, Managing Principal of Finadium, noted: "Agent lenders are pivotal business partners for beneficial asset holders in securities lending. Going forward, they will successfully meet their clients' needs by focusing on risk management and capitalizing on changes in market structure."

This press release is issued by The Bank of New York Mellon to members of the financial press and media.  
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Kathy Rulong, Global Head of Securities Lending at BNY Mellon Asset Servicing, said: “As a leading agent lender with a long-standing commitment to innovation in this field, we are ideally positioned to help shape the future of the securities lending industry. By balancing performance and risk, delivering superior service and investing in people and technology, we can ensure that our clients maximize the opportunities available to them.”

The new study can be found at:

<http://www.bnymellon.com/news/commentaries/assetservicing/roadmap.pdf>

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## Notes to editors

BNY Mellon Asset Servicing offers clients worldwide a broad spectrum of specialized asset servicing capabilities, including custody and fund services, securities lending, performance and analytics, and execution services. BNY Mellon Asset Servicing offers its products and services through The Bank of New York Mellon and other subsidiaries of The Bank of New York Mellon Corporation.

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