# Asia panel

**Industry experts take a look at the Asian markets, the ramifications of a lifting in the South Korean short selling ban, and the possible impacts developing technologies like AI and DLT will have in the securities finance space**

## Panellists

**Benoit Uhlen,** Head of Market and Financing Services APAC Securities Services
BNP Paribas

**Alex MacMillan,** Vice President, Securities Finance Sales and Relationship Management
BNY

**Marina Gomi,** Vice President, Institutional Sales Department
Japan Securities Finance

**Gerard Ngai,** APAC Product Manager, Agency Securities Finance
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**Reshad Mullboccus,** Head of Global Securities Lending Solutions Asian Equity Lending
Mitsubishi UFJ Trust & Banking Corporation (MUTB)

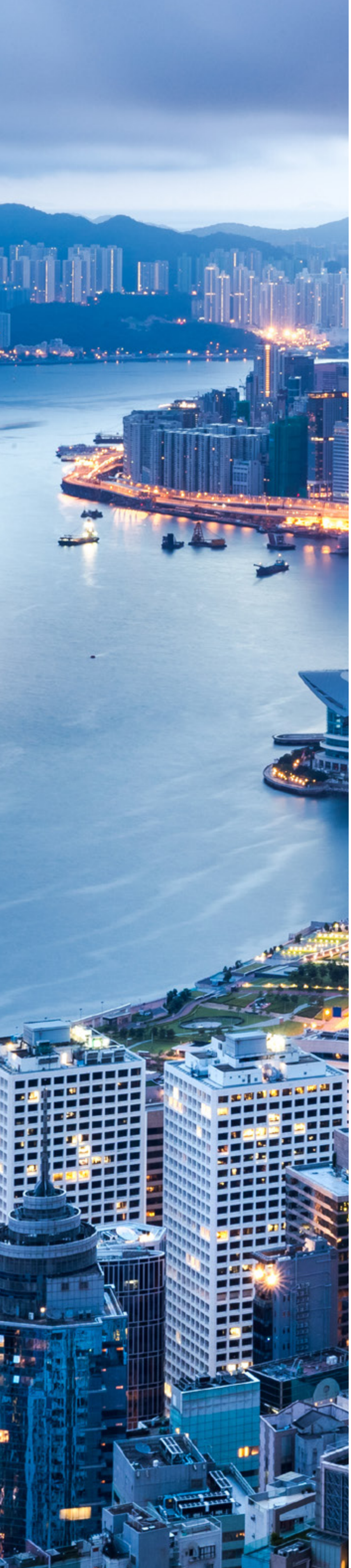
**Jeff Coyle,** Head of Hong Kong Agency Trading, Securities Finance
Northern Trust

**Juhi Chikhlia,** Associate, Securities Finance
RBC Investor Services

**Jason Wells,** Chairman of PASLA, and Managing Director, Regional Head of Agency Trading
State Street

**Suwa Kento,** Manager
The Tokyo Tanshi


AIA
GRAND LISBOA



**How do you assess the performance of APAC securities lending markets during 2024? What key lessons have you learned from this period that will help guide your business through the next 12 months?**

**Juhi Chikhlia:** One standout market in the region from a revenue generation perspective is Taiwan, where demand continues to exceed available supply therefore driving lending fees higher relative to other regional markets. Demand in this 'no-fail' market is largely driven by directional strategies associated with the technology sector, with dominance from stocks in the semiconductor, AI and chipmaker space. RBC Investor Services operates under a negotiated transaction model, and we are well equipped with the tools required to navigate the nuances of lending in the Taiwanese equities market. This includes having the operational structures, legal documentation and reporting necessary to comply with Taiwan Stock Exchange requirements.

In second place is Japan, where demand has been driven by seasonal activity and higher volumes as investors reallocate investment away from China. The sheer size of the Japanese lending market, coupled with increased corporate deal activity, sustained market rally and ongoing corporate governance reforms, all contributed to stronger lending returns.

Although Hong Kong volumes were bearish on the back of US-China tensions, lack of investor confidence in China given slow economic growth, and concerns over Chinese property developers' ability to meet debt repayments, we saw increased demand in the technology, electric vehicle manufacturing, and Chinese property and real estate sectors.

South Korea and Thailand were two markets that introduced stringent revisions to short selling rules which were aimed at enhancing supervisory measures to boost investor trust and confidence pertaining to illegal short selling. More notably, South Korea introduced a full-fledged short sale ban in November 2023 until the end of June 2024, which was further extended to March 2025. As a result of the ban, lending balances have dropped significantly, borrower demand has subdued, and lending revenues have collapsed.

In the collateral space, collateral diversification remains an important differentiator, especially when market participants need to optimise their collateral and funding capital ratios in efforts to lower their risk-weighted asset (RWA) usage. In the region, we are seeing growth in appetite to pledge Korean treasury bonds (KTBs) on the back of operational reform which has gained popularity in the funding space given its credit reliability and attractive yields. We will continue to work on expanding our collateral eligibility and pledge structures based on borrower needs, our own internal risk parameters, and most importantly, our underlying beneficial owners' risk appetite.

When compared to other international regions like North America and Europe, it is evident there is a lack of homogeneity among the APAC securities lending markets. No two markets are identical, with differences being driven by different capital market, regulatory, legal, tax, commercial and operational structures. One may view such fragmentation as presenting challenges to engage in lending in such markets, however, the region continues to be broadly viewed as an important growth area. According to DataLend, the global securities finance industry generated US$9.64 billion in revenue for lenders in 2024. Despite year-on-year (YoY) revenue decreases of 15 per cent and 24 per cent in North America and EMEA equity markets respectively, revenue generated in the APAC equities market remained relatively flat compared to 2023 performance. It continues to be a region that can provide stable lending revenue against a backdrop of geopolitical uncertainty, central bank policy and everchanging regulatory landscape and operational nuances.

**Suwa Kento:** Thanks to the Bank of Japan (BOJ) rate hike and normalisation of interest rate level, we saw a continuous flow into the Japanese government bond (JGB) market from hedge funds, foreign banks, etc.

The key lesson was a market flash clash happened in August. We have experienced unprecedented numbers of margin calls. We have learned the importance of streamlined operations and further enhancement in the counterparty risk control.

**Alex MacMillan:** As most of us know by now, no two APAC markets are the same. You need to be active in all markets to take advantage of any market changes or opportunities — micro or macro.

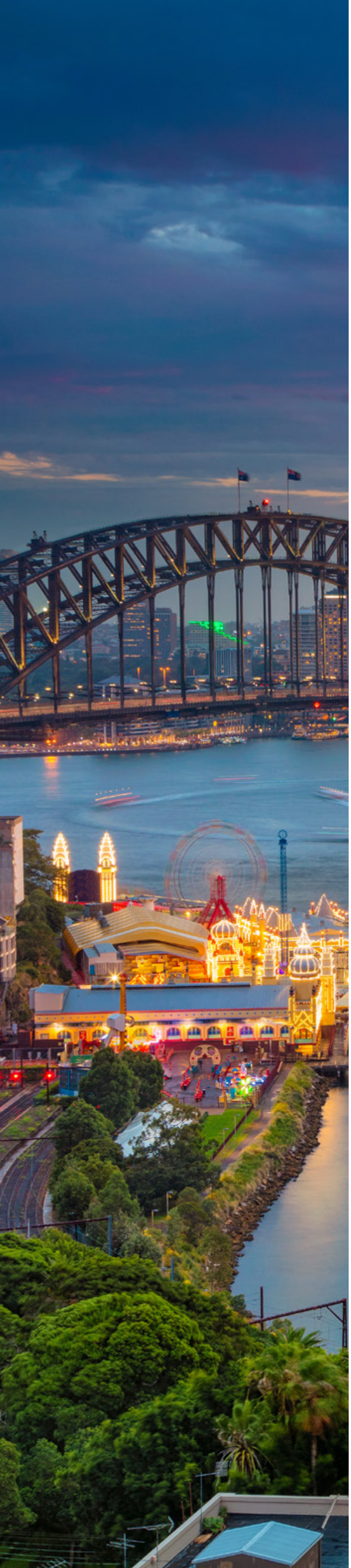
The contrasts between markets are stark, as evidenced by South Korea versus Taiwan. One market has a short sell ban which has limited lending opportunities beyond refinancing, while the other has experienced significant market specials driven by speculative directional plays in the technology segment earning fees in excess of 500 basis points.

Thailand presents another interesting case study, where we saw positive balance growth through the first half of the year. There was a material impact on growth as a result of the more stringent fines implemented in the second half of 2024 and the discussions around the interpretation of Section 650 of the Thai Civil and Commercial Code. However, the market nevertheless ended the year higher.

Another key differentiator is collateral flexibility — not only the scope, but also the mechanics. Title transfer and pledge are both necessary to meet all regulatory or counterparty requirements. Triparty remains a key growth area for BNY and the APAC region, as it enables operational efficiencies in all markets and therefore reduces costs and friction across the various transaction lifecycles.

**Benoit Uhlen:** At an industry level, APAC securities lending seems to have performed relatively well, though not as dynamically as in EMEA or the US where recent volatility has benefited volumes and levels in such geographies. As far as BNP Paribas' Securities Services business in APAC is concerned, our performance in 2024 has been good thanks to innovative financing transactions, involving collateral from emerging markets and forms of trading which allow a greater level of client engagement. These successes have encouraged us to focus more on structured and innovative trading schemes, with a strong attention on administration and risk monitoring. This has led to greater profitability for our clients and ourselves. For the next 12 months, we will look for more opportunities in these spaces.

**Jeff Coyle:** 2024 proved to be a dynamic year for APAC, full of challenges and opportunities. Borrow demand across the APAC markets was mixed.



From a country perspective, Hong Kong — a traditionally strong revenue generating market — saw suppressed borrow activity with its Hang Seng index trading at multi-year lows throughout the first three quarters, due to slowing economic growth in China and a prolonged housing crisis, with many Chinese property companies struggling to repay debt. Japan was a dependable market from a volume perspective, providing long-term lending stability. Australia was also another steady market with decent volumes and some specials activity particularly around index rebalances.

The 'jewel in the crown' for the region was Taiwan. Taiwan is a tech-heavy market, with around 67 per cent of the Taiwan Stock Exchange index being weighted to technology companies, including semiconductors, according to Bloomberg data. Semis and related stocks experienced meteoric rises in stock prices in 2024, buoyed by AI mania, driving the TAIEX to record highs and providing fertile ground for directional shorting activity. Taiwan was duly the biggest revenue generating market in APAC for the year.

Thematically, in addition to AI or technology-driven activity, we saw borrow demand in the electric vehicle sector, where competition, subsidies, and tariffs have driven pricing pressures, contributing to short interest in the car manufacturers themselves as well as battery manufacturers and infrastructure companies. This has also impacted index rebalancing demand. For example, in Australia, we saw some lithium miners stocks removed from the ASX 200 and MSCI indices, driving elevated fees in those companies that were deleted.

Challenges stemmed from regulatory headwinds such as the short selling ban in South Korea, where regulators continued to shape and implement a new market-wide short selling regime. Meanwhile, Thailand also undertook its own review of the short selling and securities lending framework. Both markets continue to work to produce the finalised versions of their regulations.

The key lesson learned in 2024 was more of a reinforcement of the mantra to 'expect the unexpected'. For example, at the start of the year the short selling ban in Korea was due to expire in June but in actuality we saw the ban extended for a further nine months until the end of March 2025. In Japan, the central bank raised interest rates for the first time since 2008, which while not entirely unexpected, meant a changing dynamic for trades which had remained quite static for a number of years. Our securities finance programme at Northern Trust incorporates a broad range of counterparties, a diverse selection of collateral options and a variety of trade structures which allows us to pivot between different trading opportunities depending on the market environment and the current demand cycle.

**Reshad Mullboccus:** 2024 was another interesting year for securities finance — a year marked by a complex environment, shaped by geopolitical uncertainty, global elections, and shifting monetary policies. Amid this backdrop, APAC securities lending market demand was driven strongly by Taiwan and Japan. The stellar performance of Taiwan was underpinned by the insatiable demand for AI and semiconductor names, while Japan benefited from improved corporate governance reforms, overall positive sentiment and active deal-making. Lending activity in other markets such as Hong Kong remained solid, driven by ongoing challenges in sectors like real estate. The short sale ban in

South Korea continued to hinder lending returns but ultimately did not take away from the overall strong returns we saw from the region.

I would not say we learned any particularly new lessons in 2024, but with every market or political event we experience, it just reinforces the need to stay the course with our long-tested business model. Namely, to lead with risk management and mitigation, to stay close to our clients and our counterparts to understand their needs and requirements and to continually evolve our programme.

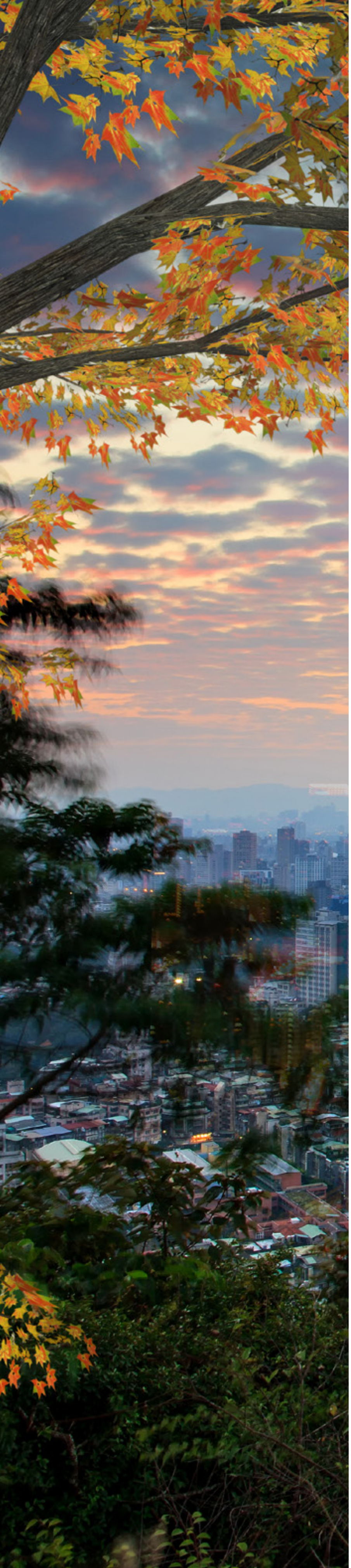
Not only do clients expect us to proactively adapt and change, but I would argue that it is even more important for us to change to meet the changing requirements of our counterparts.

**Gerard Ngai:** Markets in Hong Kong improved as China's economy displays positive signals, despite property sector credit concerns. In the early fourth quarter of last year, the People's Bank of China launched a bold policy campaign, lowering bank reserve ratios and supporting the property sector to boost the slowing economy and restore investor confidence. This move signalled the government's emphasis on meeting its five per cent growth target. Trading demand increased across various sectors in the second half of 2024, with a focus on property, technology, communications and finance sectors.

Japan's stock market maintained strong momentum in early 2024, driven by favorable domestic and external conditions. Despite volatility in the second half due to a downturn in the US and the unwinding of the yen carry trade, the TOPIX rose 17.7 per cent and the Nikkei 19.2 per cent for the year, making Japan the second-best performer by stock market performance after the US. Strong sectors included banks, insurance, energy, retail, machinery, and telecom, while transportation, basic materials, electricity and gas, food, and pharmaceuticals lagged. Corporate governance reforms revitalised capital markets activity resulting in increased stock placements and takeovers, boosting lending market opportunities. Japan remained a top contributor to APAC market lending revenues due to its large and deep equity markets.

In 2024, Taiwan's stock market hit an all-time high with the TAIEX rising over 30 per cent, driven by strong performances in the technology and chipmaker sectors. The US technology and AI sectors boosted demand for semiconductors from key manufacturers like TSMC, leading to increased investments in Taiwan's technology, semiconductors and related industries, and strengthening Taiwan's role in the global supply chain. Partnerships with US firms have led to technological improvements, fueling investor optimism and driving the TAIEX to record highs. The market growth increased demand for borrowing large and small-cap Taiwanese equities, with strong offshore supply needs solidifying Taiwan's position as a key global lending revenue market.

The market in South Korea was subject to an equity short sale ban in 2024, resulting in limited trading activity except for refinancing trades. Regulators are investigating short selling malpractices and plan to implement new monitoring systems before the anticipated cessation of the ban in the second quarter of this year. On the funding side, there has been growing interest in using KTBs as collateral in exchange for higher-quality collateral types.



In Australia, the ASX200 rose 12.4 per cent in 2024, peaking in November before declining in December to close the year eight per cent higher. Market confidence was supported by the Reserve Bank of Australia maintaining steady interest rates and a gradual decline in inflation, signalling potential easing in 2025. The financial sector saw record gains of 28.2 per cent, with the big four banks reaching all-time high valuations. The technology sector notably outperformed, surging nearly 50 per cent, due to the strong performance of AI-related stocks. In the natural resources sector, commodity price fluctuations persisted, with lithium spot prices declining due to global oversupply.

**Marina Gomi:** The APAC securities lending market has been growing steadily, along with stock indices across various APAC countries showing strong performance. In Japan, the stock market has continued to perform strongly, supported by corporate governance reforms and increased capital inflows driven by weaker yen. Consequently, the securities lending market in Japan has also shown solid growth. Outside Japan, Taiwan's market has expanded significantly, boosted by the strong performance of the IT sector. Japan Securities Finance has been focusing on securities lending transactions not only in Japan but also in Asian markets including Taiwan. The expansion of Taiwan's market has driven the growth of our business.

With increased opportunities for transactions with overseas financial institutions, we feel a heightened need to analyse market trends outside Japan to better understand the background of their needs. Over the past few years, including 2024, the APAC securities lending market has seen enhancements in market infrastructure and revisions to short selling regulations, further raising expectations for growth. We recognise the importance of consistently enhancing our commitments in the APAC markets.

**Jason Wells:** There truly was an insatiable appetite for Taiwanese equities again this year. New supply has been quickly consumed and the stars remain aligned for this trend to continue. Client interest in our Taiwan securities borrowing and lending (SBL) programme has certainly increased YoY. While we expect more of the same for the next 12 months, in an effort to constantly reinvent and improve our programme we have embarked on a review which will likely lead to significant enhancements to our offering. We see the outcomes benefiting new and existing clients alike.

## In which APAC markets do you identify new opportunities for growth of your lending business?

**Uhlen:** In South Korea, the expected lifting of the stock short selling ban should boost market demand, which will need to find fresh inventory to accompany the anticipated growth and activity in the market. In the financing space, term trades, contributing to better liquidity ratios, continue to show sound and stable dynamics. Australian Commonwealth government bonds (ACGBs) should continue to be sought for, as long as collateral takers accept sufficiently downgraded collateral, which in an agency lending model is usually mitigated by the agent's indemnification mechanism.

**Kento:** Japan, Australia, China (Stock Connect and renminbi repo via Hong Kong) and Taiwan.

Perhaps India. As for Korea, we keep an eye on the end of the short selling ban.

**Wells:** Asia is all about opportunity and growth. International real-money investors appear to have tilted to being underweight China, with those able to redeploy regionally increasing their exposures in Japan and India.

We are extremely excited by the prospect of a renaissance of corporate activity in Japan, spurred on in part by the Tokyo stock exchange's (TSE's) enterprise value enhancement programme, which has been in operation since 2023, and we see real opportunities in this market.

The second market where investment inflows have increased is India, and for very different reasons this market is just too big to ignore. India possesses an established onshore centrally cleared SBL mechanism, with properly-aligned incentives we do hope that the regulators can welcome adjustments to the structure which adopt key international lending constructs. This would quickly catapult India to become a key growth driver for the region. We are certainly eager to play a part where it makes sense.

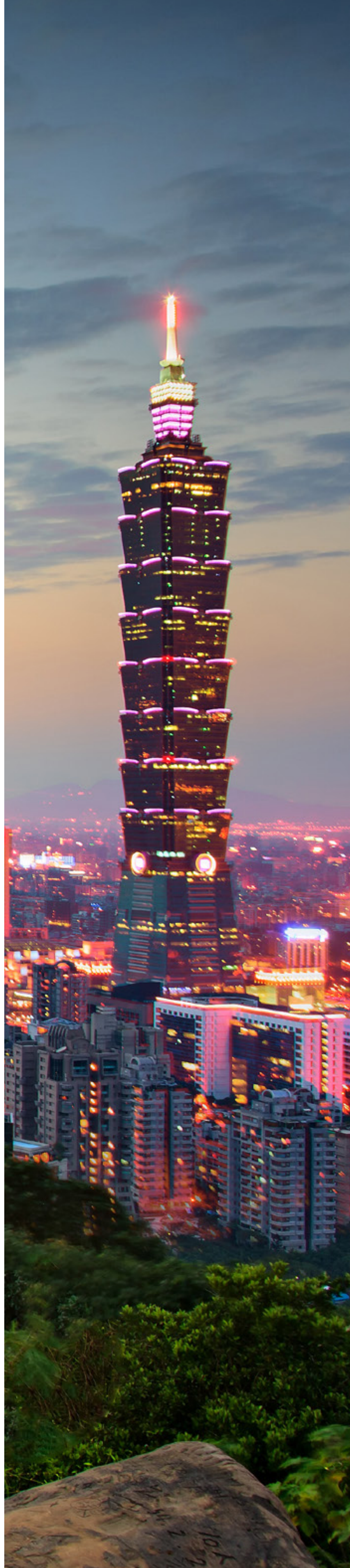
**MacMillan:** The successful integration of the International Central Securities Depository and the Korea Securities Depository in 2024 has opened up exciting opportunities for us to expand our lending business in South Korea using the power of triparty. Additionally, we have recently entered the lending market for Japanese government bonds and anticipate continued growth as monetary policy normalises. Policy changes have also positively impacted the collateral market, with increasing interest in using the Japanese yen to secure borrows, providing further opportunities for yield.

**Coyle:** The perhaps obvious but unexciting answer to this question for 2025 is South Korea. If, as expected, the short selling ban is lifted in March for all listed Korean equities, it will be the first time since March 2020 that investors will have the opportunity to physically short across the entire universe of those assets. We expect lending activity to be relatively modest to start, as market participants seek to ensure that systems and processes implemented to comply with the revised short selling regulations, are robust and reliable.

Elsewhere, markets including the Philippines and Indonesia, continue to refine their short selling frameworks and we remain alert to the potential opportunities in these markets. However, we do not envisage significant opportunities in these markets in 2025.

China presents the largest and as yet unfulfilled opportunity in the region. Participation for international investors through traditional securities lending routes remains a challenge due to the China market's unique structure. The international industry continues to engage with onshore regulators and exchanges, in conjunction with Pan Asian Securities Lending Association (PASLA), to find solutions to allow broad participation in the future.

**Gomi:** We have been expanding our securities lending and funding business beyond the Japanese market including Hong Kong, South Korea and Taiwan. Recently, we have also identified significant business opportunities in the rapidly growing markets of Malaysia, Indonesia, and the Philippines. We are currently



preparing to provide funding solutions with their securities.

The APAC region is characterised by diverse regulations and unique market features in each country. We believe this diversity provides opportunities to offer various solutions. Although we do not have offices outside Japan, we have collaborated with triparty collateral management services and have successfully executed transactions that adhere to local regulations and market characteristics. As a member of the Asia region, we are committed to contributing to the expansion of the APAC markets. We will continue to focus on the APAC market, which is poised for further growth beyond 2025.

**Chikhlia:** We see the Philippines and Indonesia as the next two emerging lending markets, following the crystallisation of onshore hedging solutions for investors within their capital market structures. We are working closely with PASLA to advocate for improvements in the securities borrowing and lending models in both markets to provide more scalable solutions aligned to international practices in efforts to maximise inclusivity for wider adoption and participation.

**Mullboccus:** Clients frequently inquire about the key capital markets in Asia and we are especially getting a great deal of questions and interest in India and China. Clients are really hoping for fully functioning offshore securities lending markets in both countries. Interest has also grown in the progress being made by the Philippines and Indonesia as they develop their domestic securities borrowing and lending models. South Korea, with its short selling ban expected to be lifted at the end of March 2025, will be a market to watch closely for potential shifting demand.

**Which regulatory initiatives in APAC markets will consume most attention for your agency lending and collateral management teams over the coming 12 months? What programmes are ongoing within PASLA, and at industry-level more broadly, to support this agenda?**

**Wells:** Will they or won't they resume short selling? That is the question I ask myself when observing the current challenges domestically and internationally that Korea faces head-on at this time. Many hours have been dedicated to Korean matters in the last 12 months and I anticipate many more will be dedicated to it in the year ahead. We of course look forward to regulatory certainty, clear, defined requirements for which we shall meet. We are also excited at the prospect of a corporate governance improvement initiative that is underway in Korea and look forward to the resumption of covered short selling on the entire equity market. However, a small part of me still wonders if it may just be easier for the powers that be to kick the can down the road and wait for a more stable environment before lifting the short sale ban this March. I watch with interest and curiosity and will be positively surprised to see growth in this market in 2025.

PASLA's efforts in Indonesia are certainly worth keeping an eye on. Modifications to the collateral management platform at the CCP ID Clear would be most welcome to international lenders.

**MacMillan:** Settlement cycle compression continues to be a global phenomenon that markets all over are either exploring or leaning into. Specifically in Asia, Hong Kong (HKEX) has undertaken a 'sounding survey' and Australia (ASX) is similarly engaging with the market to better understand the impact and requirements ahead of any move to T+1. Our team at BNY is actively engaging markets directly and via conferences like PASLA to ensure our support is clear and concerns are heard.

We are also keeping close watch on CP 230, a key development taking shape in APAC this year that focuses on operational resilience. CP 230 guidelines will require all securities lending market participants — including BNY — to ensure stricter risk management frameworks.

**Coyle:** Preparing for the lifting of the short selling ban in Korea is a primary focus. At Northern Trust we are ensuring preparedness through diligent internal stakeholder engagement with legal, risk, compliance, trading and operations teams and additionally by working with the wider industry through our engagement with PASLA. Having PASLA's involvement has been enormously helpful in acting as a conduit between market participants and the various Korean regulatory bodies.

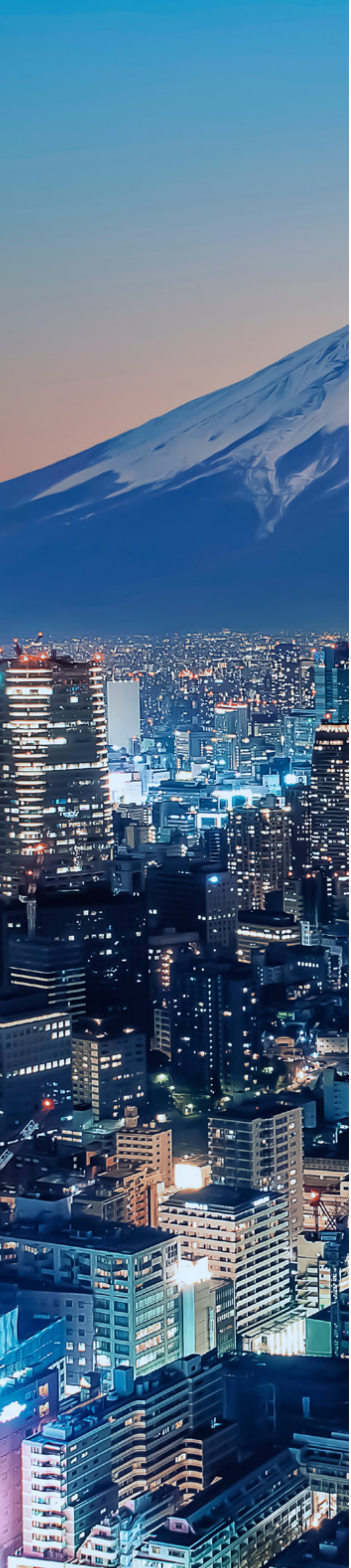
Thailand is also a focus market as we await the outcome of the short selling review. Again, having PASLA as a mouthpiece for regulatory engagement has been helpful, and although at the time of writing the review has not finished, we hope that the constructive dialogue which has taken place will lead to a positive result for the market.

Some APAC markets including Australia, Hong Kong, and Taiwan have started looking at the feasibility and market appetite for a T+1 settlement cycle. It would require significant development in each of these markets for all stakeholders including the exchanges and market participants alike. While there may be opportunities for industry engagement on this matter in 2025, we do not expect to see T+1 implemented in any of these markets until 2026 earliest.

Globally, Basel III Endgame has consumed a lot of focus and attention, and was due to take effect in July 2025. However it is likely that markets will delay implementation amid significant push back from banks and growing political pressure, particularly in the US. The UK has already announced they will be pushing implementation out until 2027, and while we still await clarity from Europe it is also likely to be delayed to avoid EU banks suffering a competitive disadvantage if they were to adopt early.

**Uhlen:** The possible and progressive move into T+1 settlement cycles in APAC markets is likely to be an area of focus for us. A key priority will be to accommodate these changes without degrading the quality of our lending services nor our clients' capacity to mobilise their securities when needed. Through the potential evolution surrounding China's onshore repo market, this could be of strong interest for us, materialising new opportunities related to the search and supply of liquid collateral.

**Chikhlia:** Market participants must ensure they have robust processes to manage liquidity, risk scenarios and regulatory developments. Financial reforms such as Basel III Endgame has increased the cost of doing business, and as a result, capital-efficient trade structures remain in focus as market players look to reduce their RWA usage. Initiatives such as central clearing counterparty (CCP) and alternative pledge



structures are being developed to address these growing concerns.

The inescapable impact of T+1 will continue to be top-of-mind following India's move in early 2023, and the US, Canada, Mexico, and Argentina's successful moves to T+1 settlement cycle in May 2024. Several APAC markets such as Australia, Taiwan, and Hong Kong have commenced consultation papers and market soundings with industry stakeholders as the industry adapts to the accelerated settlement cadence. Firms will need to leverage scalable automated solutions to remove operational bottlenecks, manage the increased speed at every touchpoint in the trade lifecycle, and ultimately enable more thorough straight-through-processing (STP). As highlighted previously, APAC markets are less harmonised compared to other regions, where markets differ in operating structures and prefunding requirements, so adjustments and risks will be heightened to address the nuances that exist in the region. Certain markets will need to have infrastructural reform to address such challenging operating structures before moving to T+1.

Similar to other market participants, we will be closely watching the anticipated lift of the short sale ban on all equities in South Korea by the end of March this year. Furthermore, we are closely monitoring the developments in Thailand with regards to the country's Securities Exchange Commission (SEC) and Stock Exchange of Thailand's (SET) introduction of stricter short selling rules in efforts to improve transparency and maintain trust and confidence in the Thai capital market.

PASLA has several working groups which include participants from RBC and various other member firms, to address the nuances of the APAC markets as well as spend time on advocacy efforts, by broadening engagement with regulators, stock exchanges, central clearing counterparties, and policy makers. We will continue to collaborate with PASLA into 2025 through participation in various working groups.

**Ngai:** I have broken this down into three sections, the first of which is regulatory reporting requirements.

The Australian Prudential Regulation Authority (APRA) issued the specifications for Superannuation Data Transformation Phase II. This initiative aims to improve transparency and risk management by enhancing data granularity and quality detailed in reporting from Australian superannuation funds. The changes are expected to impact securities financing and collateral management, among other areas, with annual reports for 30 June 2025, due in November 2025, and the first quarterly report for 30 September 2025, due in December 2025

Meanwhile in Hong Kong, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) plan to implement global reporting standards, including unique transaction and product identifiers, for OTC derivatives reporting.

Secondly, I consider the accelerated settlement cycle. In the APAC region, several markets are exploring or consulting on reducing settlement timeframes to match the T+1 cycle adopted by the US and Canada last year. We have seen recent consultations within industry groups across Australia, Hong Kong, Japan, and Taiwan. While implementation may still be some time away, we are actively engaging with broader industry groups to ensure readiness and effective planning.

Finally, it is worth considering the regulatory impact on the collateral market. In South Korea, the short sale ban is expected to be lifted in March 2025 after 15 months. We anticipate clients re-entering or expanding their equity portfolios, with a strong focus on compliance with the new regulatory and market frameworks.

In Taiwan, there are industry discussions exploring amendments to collateral rules to allow pledging of Taiwan securities as collateral. We see broad interest in using Taiwan assets as collateral, but operating model complexities will need to be carefully considered.

In China, there is ongoing expansion and discussion on permissible use cases for China government bonds as collateral. Additionally, the newly issued margin rules for derivatives by the National Financial Regulatory Administration (NFRA) are expected to increase interest in using RMB assets as collateral.

## What investments and adaptations to technology and working practices have you made during 2024 to sustain and grow your securities lending activity in the Asia Pacific region?

**Ngai:** The introduction and proliferation of artificial intelligence and machine learning-driven tools has been seen across industries, and J.P. Morgan is heavily investing into these areas. Our business currently leverages various tools across disciplines to enhance productivity, software development lifecycles, and predictive pricing models.

We also continue to invest in core processes and technology in strategic areas such as product innovation, client experience, analytics, API and data strategy, and scaling operational efficiency through workflow automation.

**MacMillan:** The EquiLend outage in early 2024 tested the market's ability to execute automated trades, but our ongoing investments in technology enabled us to continue trading in an efficient and highly automated manner throughout and to support our clients around the globe. The sophistication of beneficial owners continues to be the key driver behind our enhancements which enable us to meet the evolving needs of our clients in the region and beyond.

**Mullboccus:** Our ‘follow-the-sun’ trading philosophy is set to advance further in the coming year as our local presence in Asia continues to take shape. At the core of this approach is a focus on leveraging technology to seamlessly connect with clients, platforms, counterparts, and vendors across the entire securities lending value chain. Our goal is to offer clients the widest range of routes to market.

**Wells:** A cyber incident in January 2024 at the platform EquiLend, led to a sudden and multi-week cessation of core SBL workstreams for the industry. Unlike other agency lenders, State Street exhibited impressive resilience by leveraging its proprietary lending platform named Venturi ALP. The incident highlighted a core dependence on a singular venue. This presented several institutions with significant challenges which State Street was able to solve

for in short order. The adoption of Venturi ALP increased commensurably and retained business flows even after the resumption of EquiLend. This situation demonstrated foresight, resilience and underscored the flexibility of the multi-platform State Street business.

**Chikhlia:** Operations is part and parcel to any securities lending business, so technology adoption and process adaptation is essential to ensure operational resilience. In a period of technological advancement and an everchanging regulatory landscape, it is imperative for firms to keep up with such dynamic changes. RBC Investor Services follows a global 'follow-the-sun' trading model with desks in London, Toronto, Singapore, and operational support in Toronto and Kuala Lumpur to provide 24/5 coverage across 34 lending markets. We have made significant investments to enhance and transform our technology stack to increase efficiency, remove bottlenecks and strategically reduce risks and utilise various solutions provided by market vendors to centralise and automate processes such as recall management and income claims.

**Coyle:** At Northern Trust we are committed to making sustainable long-term investment in technology which aligns with the needs of our clients, supports market access and delivers both scalable and customised solutions for our product suite. We have a cohesive global strategy which allows product enhancements and technological developments to benefit all geographical regions.

In recent years we have observed a distinct and compelling trend accelerating on the buy side, relating to growing sophistication around the use of inventory to drive incremental return across the portfolio. More specifically, clients are increasingly looking at how to best utilise their long positions across their financing, liquidity and collateral activity. We recognise that to be able to achieve this effectively, there needs to be a centralised strategy across these functions to optimise the use of such assets.

Investments have been made by Northern Trust to optimise capabilities across our securities finance product suite for in-scope clients to be able to derive enhanced benefits from transacting with Northern Trust across these services. We have invested into our technology platforms to consolidate securities finance data into a single platform which supports a suite of new and existing financing solutions. Northern Trust launched Nexus in early 2023 and as part of a multi-year investment, the platform is continuously evolving to bring together a suite of new and existing services across securities lending, borrowing, financing, liquidity and collateral management that would serve as the single point of interface with our capability set.

## How have monetary conditions shaped securities lending opportunities in the Japanese market? How are you positioning yourself to maximise opportunities for lenders and borrowers in this environment?

**Mullboccus:** The changing monetary conditions in Japan have been spurring demand for JPY fixed income securities and JGBs since the start of 2023. Historically, JGB portfolios saw very low lending returns, with few, if any, securities regularly on loan. We witnessed the first increase in demand for these securities when the Bank of Japan added greater flexibility to its yield curve control around two years ago, and the initial result was an increase in demand for JGBs with a maturity between 5 and 10 years, as well as for bonds deliverable into the futures contracts. As many as 20-30 different JGBs saw strong borrowing interest, with spreads of up to 3bps. At the same time, we also started to see appetite for JGBs in collateral upgrade/downgrade transactions, allowing clients with JGB portfolios to see utilisation rates of up to 100 per cent for the first time.

However, since then we have seen a trend of gradually decreasing demand for specific JGBs along with a reduction in lending spreads, as the BOJ maintained a stable base for monetary policy operations, Even the interest rate rises in 2024, first to 0.10 per cent in March, then to 0.25 per cent in July, did little to reverse this trend. Spreads compacted with most JGBs available below 10bps fee and demand waned across the maturity range.

But strong returns are still possible for lenders looking to maximise opportunities for their clients and this is something that we have worked to achieve as we position our lending programme to continue to maximise revenue for our clients. As specific value wanes, it is entirely possible to increase the use of JGBs in collateral upgrade/downgrade trades. In effect, JGBs that had been lent as specials moved into general collateral (GC) trades, maintaining high utilisation levels at a consistent spread. Importantly, if the market changes and a specific security does pick up special value, then it can be moved out of a GC basket and put on loan at the maximum lending spread possible.

To achieve this continued value in a JGB portfolio, we need to position ourselves to be able to structure bespoke, flexible transactions that meet both the needs of the borrower as well as the underlying client. Working closely with clients is key, as is the ability for flexibility in collateral schedules and transaction tenors. The future looks good for JGB lending. A further interest rate rise is possible for early in 2025 and we feel we are well positioned to take advantage of any changes in the lending market.

**Coyle:** The Bank of Japan took action to lift rates from the zero bound in 2024, at a time of policy easing from the Federal Reserve. This convergence of respective interest rates directly impacted the cross-currency basis spread between Japanese yen and US dollars. Demand for borrowers to pledge JGBs as collateral against borrowing US Treasuries softened slightly but did not disappear, although the spreads narrowed for this trade.

In August 2024, Japan's Nikkei 225 lost approximately 25 per cent over three days after the Bank of Japan's decision to hike rates coincided with fears of a US recession. The fears were short-lived, and the index subsequently bounced back, albeit lower than before the shock. This temporary fall was a blip on what was otherwise a strong performing equity market, gaining over 19 per cent through 2024. Japanese companies were able to take advantage of the elevated valuations through capital raising activity, which was the highest among regional peers. However, we did not see many of these events translate into material revenue opportunities, as ample liquidity kept borrow fees at general collateral levels.

As mentioned earlier, during periods of changing demand dynamics, flexibility and adaptability

is key. For example, the ability for our clients to accept Korean treasury bonds as collateral, provided another distribution outlet for lending US treasuries, countering the fluctuating demand for JGB's.

**MacMillan:** With Japan now shaking off many years of stagflation, companies are reducing their dividend ratios and instead putting capital to work either internally or via acquisitions. This, in turn, will reduce and create new opportunities in the financing space. As one counterparty recently said, "there are so many deals in Japan right now, it's hard to work out which ones to really focus on". Hopefully, this trend will continue well into 2025 and beyond.

**Wells:** After over a decade of ultra-loose Japanese policy, an uptick of inflation led to a decision by the Bank of Japan to raise interest rates marginally in 2024. State Street has long held the unique position among its peer agent lenders in the securities lending market to accept yen cash as collateral. It is likely that rates will continue to face upward pressure which will require adjustments to the facility, however, State Street's close partnership with global cash manager State Street Global Advisors provides the business with intelligence on opportunities in cash investment in Japan. The agency business began to mobilise efforts to capture new opportunities in the yen arena and this effort will build through 2025.

**Chikhlia:** In March 2024, the BOJ raised short-term interest rates for the first time since 2007, ending its negative interest rate policy. Prior to the central bank's rate hike measures, divergent central bank policies between US and Japan more specifically, provided significant cross currency arbitrage opportunities. The standout funding trade was to borrow US Treasuries versus JGBs due to the USD-JPY cross currency basis spread widening. We will be closely monitoring what actions the BOJ will make over 2025 and the impact of further rate hikes, if any, on the popular Yen carry trade. Japan continues to be a strong market in providing stable lending revenues due to specials and seasonal demand.

**Gomi:** The repo market for JGBs experienced increased demand for funding in 2024, driven by the high credit and liquidity of JGBs as collateral, as well as expectations of rising interest rates.

The stock market also maintained strong performance, supported by corporate governance reforms among Japanese companies and increased capital inflows due to weaker yen. Consequently, the securities lending market showed steady growth as well.

In the same year, the Bank of Japan ended its negative interest rate policy and subsequently raised interest rates, resulting in significant changes in the market environment. Despite these changes, in the stock lending market there has been no substantial shift in GC rates before and after the interest rate hikes. However, we have observed a trend where borrowers have preferred to reduce inventory and opt for securities as collateral over cash in response to the rising interest rates.

As a leading player in the Japanese repo market, we cover almost all financial institutions in the country and play a crucial role in linking domestic and international repo markets. With over 70 years of expertise in managing domestic margin transactions, we provide a variety of liquidity across different maturities and accept a wide range of collateral, thereby offering diverse solutions to our clients.

**Ngai:** In 2024, the Bank of Japan cautiously began normalising monetary policy, with domestic economic data and the US economy likely being key factors. There is expectation for this to continue into 2025. As the Federal Reserve enters a rate-cut cycle, the narrowed USD-JPY cross-currency spread may limit opportunities in JPY funding and US Treasury (UST) versus JGB upgrade trades. Consequently, demand has increased in areas like equities upgrade trades into UST or JGB. Other market opportunities include accepting JPY cash and JGB repos for reinvestment.

**Kento:** The change in the monetary conditions has brought significant volatility in the market. We regard ourselves as a first-time-attender to this community. We are very open to any new opportunities.

### In 2024, the Council of Financial Regulators assessed the case for the central clearing of bonds and repos in Australia. How will the possible introduction of a CCP in the region impact the repo market?

**Ngai:** The proposed CCP was previously implemented but faced challenges due to several key repo counterparties not using the service, leading to its termination in 2004. Feedback suggests that a CCP could improve settlement cycle efficiency in the market, but it requires broad market participation to reach critical mass. Given the large commitment required for a rollout, most repo counterparties expect limited impact in 2025.

**Kento:** We believe this will have a big impact on Japan Securities Clearing Corporation (JSCC) and push them to move on to client clearing.

**Coyle:** The potential introduction of a CCP for bonds and repos in Australia would represent a significant development. The market could reap the potential benefits of CCPs including enhanced market transparency, reduced counterparty risk and improved overall market efficiency. We might see increased trading volumes for ACGB's as foreign banks may class them as Level 1 or HQLA for internal regulatory metrics. Costs would be a potential concern with the implementation of a CCP and while some banks are exempt from the Australian Bank Levy, it would create additional costs for those already subject to it.

Northern Trust has significant experience of transacting via CCPs given our large footprint in the US, and more specifically our role as sponsoring member to centrally clear US treasuries via the Fixed Income Clearing Corporation (FICC). The US Securities and Exchange Commission's (SEC) adoption of mandatory clearing for US treasuries from June 2026 will undoubtedly drive other regions to consider such activity.

### How do you assess the outlook for APAC securities lending markets for 2025?

**Kento:** It will be a more exciting year than ever, in that AI will be more common in daily operation and more sophisticated data analysis will be

available. New initiatives for crypto assets, DtC e-trading system, distributed ledger technology (DLT) etc. Needless to say, there will be much more market volatility this year.

**Chikhlia:** The geopolitical landscape will play a significant role in shaping regional activity in 2025. With Trump's presidency, ongoing tensions between China and the US over trade tariffs will have an impact on regional demand across technology, AI chip manufacturing and shipping sectors across several markets including, but not limited to, Taiwan and Japan.

We anticipate Taiwan will remain a lucrative lending market with continued robust demand. South Korea's reopening in March 2025 will provide renewed lending opportunities. Regulatory reform across regions will require close attention.

Regulatory capital and associated RWA considerations will continue to be at the forefront for securities finance participants. The need for capital-efficient trade structures will continue to cause repricing on existing trades and reinforce the importance of diversification from agent lenders alike with regards to expansion of eligible collateral sets, markets and borrowers. This activity will be aimed at increasing distribution of assets, and more importantly, revenue for our beneficial owners.

**MacMillan:** Continued progress in markets such as Indonesia, the Philippines, India, and China as they further evolve their regulations, which will open up more lending opportunities to a wider universe of offshore lenders and borrowers. The inclusion of South Korean government bonds in the FTSE World Government Bond Index (WGBI) in November 2025 is also a significant development to watch, as it will drive more activity and opportunities in the South Korean market.

In Australia, the growing superfund industry and increased involvement by those funds in how their securities are loaned, recall rights and voting will drive more directed lending in 2025. However, local and global politics will continue to have a direct or indirect impact on APAC markets, which could alter the approach to existing or future roadmaps in terms of relaxing protective regulatory measures.

The big question for 2025 is whether valuations in China (and therefore Hong Kong) have finally bottomed out, and whether the Chinese economy will be revived, spurring corporate activity and a return to sustainable growth. Regardless, buy side asset managers will need to continuously optimise their portfolios and positions, and securities finance provides a value proposition to all parties, including lending, borrowing, repo-ing, swapping, upgrading, and other commercial or legal conventions. Therefore, it is expected that all parties will need to do more of it in 2025.

**Gomi:** Financial markets across APAC countries are steadily expanding. In securities lending, various countries are enhancing their market infrastructures to draw in foreign investors, such as the recent establishment of a CCP in Indonesia. As trading environments improve, these markets become increasingly attractive, fueling expectations that the growth trend in APAC's securities lending markets will continue. Given this outlook, we recently supported the establishment of PT Pendanaan Efek Indonesia, a securities financing company in Indonesia. We continuously aim to leverage our unique business model to enhance our presence as a leading security finance institution in Asia, bridging the rapidly growing Asian markets with the global market.

**Wells:** Another strong year in Taiwan is expected; a resumption of short sale activity in Korea albeit at a cautious pace; an uptick of Japanese corporate events which drive arbitrage opportunities; expect further interest and participation from retail brokerage platforms in the region.

**Mullboccus:** Looking ahead to 2025, we are optimistic about the prospects for the Asia market which we think will build upon the momentum from 2024. Demand for borrowing Taiwan and Japan securities is expected to remain robust, with the anticipated lifting of South Korea's short selling ban likely to further boost demand.

MUTB's focus will be on further developing the three C's: clients, collateral, and counterparts. We are continually working with our clients to refine guidelines, expand the range of acceptable collateral, and implement pledge agreements with counterparts to enhance our solutions offering.

**Coyle:** We anticipate 2025 will be another interesting, exciting and opportunity-filled year for APAC securities lending. As discussed, the expected return of South Korea as a major regional market for securities finance activity will be welcome, and clarification of the regulatory guidelines in Thailand should lead to improved lending conditions in that market also.

The real conundrum for 2025 is how the Hong Kong market will fare, with its fortune intrinsically tied to the economic landscape on the mainland. Stimulus measures introduced by the Chinese government throughout 2024 boosted market sentiment in the short-term but failed to inspire sustained rallies across the equity landscape, keeping valuations at relatively historic lows. This has meant that fundamental hedge fund activity has been subdued with little appetite to place bets on the downside, therefore suppressing borrow demand. The key to reviving Hong Kong securities lending activity will be whether Beijing can bolster the Chinese economy, while navigating potential sanctions from the new US administration.

We expect that the top performing APAC markets will be Taiwan and Japan — no different to 2024. There is no sign that the AI wave is subsiding any time soon, therefore we would expect conditions to prevail in the technology sector for Taiwan to have another strong year in 2025. The Japanese equity market performed strongly in 2024 and it will be crucial for the BOJ to smoothly manage its transition to a tighter monetary policy to keep the upward momentum this year. If the Nikkei and Topix indices continue to climb then, at the very least, this would mean higher loan balances and higher revenue streams in this volumes driven market. In addition we may have another strong year of capital raising activity, which in turn could lead to lending demand around some of these events.

For certain, in 2025 the world of securities finance in APAC will keep us all engaged, captivated and ever industrious.