Custody Risk AMERICAS AWARDS 2014

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Securities Lender of the Year
eSecLending

Alasdair King, vice president, eSecLending

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The winner of the Securities Lender of the Year award continued to leverage its well-established auction process for the benefit of its beneficial owner client base as it turns its attention to future regulatory changes and product diversification.

In 2013, eSecLending won mandates from both new and existing client relationships. eSecLending's ability to secure hard-to-borrow assets attracts the largest global institutional investors (current clients manage over $3 trillion in assets under management) and portfolios in high demand from the borrowing community. Expanded mandate awards from existing clients are the strongest testament to client satisfaction and continue to be a key driver of growth for the firm.

eSecLending's process differs from traditional custodial programmes by using its proprietary auction process to garner price discovery and determine the optimal execution strategy at the portfolio or asset class level (either via guaranteed exclusives or daily discretionary lending). A lender may award a specific borrower exclusive access to a portfolio for a defined period of time (typically one year). In the exclusive strategy, a guaranteed fixed fee is paid by the borrower. Clients are attracted to exclusives because they provide a consistent fee structure, which can be easily budgeted, and they add consistent alpha to portfolios. Borrowers are attracted to exclusives because they provide consistent supply to support their prime brokerage activities.

Chris Jaynes, president at eSecLending, says: "This is why the larger prime brokers are augmenting their supply with high-quality exclusive portfolios, even if the overall price paid is at a significant premium to current market levels. eSecLending is the only agent in the market that begins each client's lending programme with a competitive auction process. Our clients benefit tremendously from this, as borrowers are willing to bid a premium for access to in-demand assets."

Following the auction, many clients also utilise eSecLending's discretionary lending capabilities. In this daily lending strategy, specials are priced aggressively and allocated to the borrower willing to pay the highest price (i.e., lowest rebate). Since eSecLending operates segregated programmes and does not operate a queue, trade negotiation is not dependent on maintaining general collateral balances and, as such, lending decisions are based on best execution.

eSecLending, a non-depository trust company, says it is well placed to operate in the current and future regulatory environment as the regulatory limitations imposed by Basel III and Dodd-Frank are expected to have the greatest impact on its main competitors, namely the custodial banks. eSecLending's indemnification is supported by independent insurance companies and provides an opportunity for diversification of risk. eSecLending says its clients will not incur additional costs stemming from regulation, as the cost of its indemnification is already incorporated into existing pricing; in addition, unlike the large custody banks, the proposed regulations will not limit eSecLending's capacity to increase loan activity, to transact with certain counterparties or limit potential revenue opportunities to the beneficial owner.

eSecLending says it strives to diversify its product offering beyond securities lending and related activities by creating products and services that appeal to a broader set of asset holders. The firm is developing collateral and liquidity solutions to address regulatory requirements and enable institutions to optimise their assets to meet new demands for collateral and liquidity on a firm-wide basis. In the fourth quarter of 2013, eSecLending also launched Auction Platform Services, a hosted software solution that leverages eSecLending's proprietary auction technology to financial institutions seeking transparency, discipline and automation for asset price discovery.

eSecLending
SECURITIES FINANCE TRUST COMPANY