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Beneficial owners survey 2012: the full results

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Beneficial owners rated their lenders and provided their opinions in greater numbers than ever in Global Investor/ISF's 2012 survey. Analysis by Alastair O'Dell

The top spots of the overall tables were divided between three lenders this year. Capping a successful year, eSecLending won the unweighted category, impressively up from a fifth place last year.

Goldman Sachs Agency Lending (GSAL) won the weighted category (where scores are weighted by lendable portfolios), retaining its position from last year. It had won the unweighted category as well then, but finished second this time in a close race.

Brown Brothers Harriman (BBH) dominated the footprint table, scoring nearly double that of the next placed lender, which was JPMorgan. The high footprint score reflects the volume of responses a lender has received from its beneficial owner clients.

OVERALL TABLES

UNWEIGHTED

Rank		Score
1	eSecLending	6.77
2	Goldmans Sachs Agency Lending	6.70
3	Citi	6.32
4	BNY Mellon	6.28
5	Deutsche Agency Lending	6.26
6	JPMorgan	6.25
7	Brown Brothers Harriman	6.24
8	RBC Dexia	5.73
9	State Street	5.48

WEIGHTED

Rank		Score
1	Goldman Sachs Agency Lending	11.72
2	Deutsche Agency Lending	11.43
3	Brown Brothers Harriman	10.80
4	Citi	10.75
5	State Street	10.24
6	eSecLending	9.82
7	JPMorgan	9.81
8	BNY Mellon	9.43
9	RBC Dexia	8.99

FOOTPRINT

Rank		Score
1	Brown Brothers Harriman	291.58
2	JPMorgan	162.49
3	Citi	132.77
4	State Street	131.43
5	Goldman Sachs Agency Lending	107.13
6	BNY Mellon	106.81
7	Deutsche Agency Lending	91.68
8	eSecLending	81.19
9	RBC Dexia	74.53

OVERALL - EMEA

UNWEIGHTED

Rank		Score
1	Goldman Sachs Agency Lending	6.75
2	eSecLending	6.74
3	Deutsche Agency Lending	6.36
4	Brown Brother Harriman	6.25
5	BNY Mellon	6.21
6	JPMorgan	6.16
7	Citi	6.07
8	RBC Dexia	5.87
9	State Street	5.27

WEIGHTED

Rank		Score
1	Goldman Sachs Agency Lending	13.52
2	Deutsche Agency Lending	11.81
3	Citi	10.96
4	Brown Brother Harriman	10.39
5	eSecLending	9.60
6	RBC Dexia	9.06
7	State Street	8.16
8	BNY Mellon	8.13
9	JPMorgan	7.97

FOOTPRINT

Rank		Score
1	Citi	74.20
2	Deutsche Agency Lending	67.38
3	Brown Brother Harriman	63.60
4	JPMorgan	56.24
5	eSecLending	43.46
6	RBC Dexia	36.95
7	Goldman Sachs Agency Lending	30.33
8	BNY Mellon	29.37
9	State Street	26.37

Survey respondents

The 2011 survey had solid support from beneficial owners, with 155 responding. The make-up of those that responded was biased towards agent custodial relationships: 55% had exclusively this type of arrangement whereas 25% had exclusively third party arrangements.

The remainder had a combination of both. Respondents overwhelmingly used just one provider, making up 71% respondents. Only 4% used more than three.

Only a few beneficial owners currently had active exclusives: 8% had agent-managed exclusives and 5%

had direct exclusives and self-managed programmes. Only 27% engage in exclusive arrangements at any time. Of those that do engage in exclusives (whether or not anything was currently active) 88% would opt for agent managed arrangement.

The percentage of lendable assets that is typically lent out was low – presumably due to the subdued demand from hedge funds. This year 45% of beneficial owners lent out between 5% and 10%; 17% lent out between 10% and 15%; and 11% lent between 15% and 20%. The remainder were split evenly across segments up to 100%.

Equities dominated lent portfolios of many beneficial owners: 40% said they accounted for between 95%-100% of the programme. However, owners that had mixed programmes did so at all levels – the percentage of equities in programmes was fairly evenly distributed between 0% and 95%.

As one would expect, the proportion of fixed income in lending programmes was concentrated at the lower end; 47% of owners had less than a quarter of their programme in this asset class.

There was a very even split of collateral types, between non-cash and cash. Roughly a third each had 100% cash, 100% non-cash and a mixture of cash and non-cash.

Beneficial owners also considered investment guideline components for cash collateral vehicles in the following order of importance: credit quality (46% of 'most important'); eligible instruments (27%); liquidity (26%); concentration limits (1%); and duration parameters (0%).

The beneficial owners were asked to rank service categories in order of importance. The following attributes were ranked most important or among the top three attributes by the following percentage of beneficial owners:

- Risk management (most important 66%, among top three attributes 92%)
- Income generated (17%, 53%)
- Settlement & responsiveness to recalls (4%, 35%)
- Lending programme parameter management (4%, 17%)
- Programme customisation (3%, 14%)
- Relationship management (2%, 14)
- Reporting and transparency (1%, 37%)
- Costs (1%, 13%)
- Market coverage (developed markets) (1%, 4%)
- Market due diligence (0%, 12%)
- Handling of corporate actions/dividends (0%, 8%)
- Market coverage (emerging markets) (0%, 1%)

New this year
This year the survey has expanded and we have published several more tables. The overall tables are broken down by the three regions: Europe, Middle East and Africa (EMEA); Americas; and Asia Pacific.

We also are publishing for the first time the service category tables in overall format, in addition to the usual dedicated custodian and third party service tables, and expanded the number of these tables from nine to 12. A full explanation of the methodology can be found on page 34.

The breakdown of results by geographical region produced different results for each set of tables. The EMEA region was topped by GSAL, in both the unweighted and weighted categories.

The unweighted victory over eSecLending was very slender at 0.1 but its weighted equivalent over Deutsche Agency Lending was more dominant. Citi topped the footprint table due to the higher volume of responses that it received – pulling up its score from seventh in the unweighted category.

In the Americas, eSecLending achieved top spot in the unweighted category by a significant 0.13

differential. It did not do so well in the weighted category however, reflecting the smaller size of the lendable portfolios of its responding beneficial owners, where it only came in seventh.

In the footprint table it finished in eighth place, reflecting the fact that it had fewer responses than its rivals. Once weightings were added to adjust for the portfolios of the beneficial owners JPMorgan topped the table and, for number of respondents, Brown Brothers Harriman prevailed.

Asia Pacific was the least well represented of the three regions. JPMorgan beat State Street in the unweighted category but the positions were reversed in the weighted and footprint tables.

OVERALL - AMERICAS

UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	eSecLending	6.80	1	JPMorgan	11.80	1	Brown Brothers Harriman	102.06
2	Goldman Sachs Agency Lending	6.67	2	State Street	11.67	2	BNY Mellon	80.07
3	Citi	6.60	3	Deutsche Agency Lending	11.27	3	JPMorgan	79.26
4	BNY Mellon	6.31	4	Brown Brothers Harriman	11.01	4	Goldman Sachs Agency Lending	69.45
=5	JPMorgan	6.26	5	Goldman Sachs Agency Lending	10.91	5	State Street	68.83
=5	Brown Brothers Harriman	6.26	6	Citi	10.53	6	Citi	62.58
7	Deutsche Agency Lending	5.90	7	eSecLending	10.13	7	RBC Dexia	41.30
8	RBC Dexia	5.57	8	BNY Mellon	9.97	8	eSecLending	27.84
9	State Street	5.29	9	RBC Dexia	8.91	9	Deutsche Agency Lending	26.47

OVERALL - ASIA PACIFIC

UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	JPMorgan	6.39	1	State Street	9.69	1	State Street	38.36
2	State Street	6.01	2	JPMorgan	8.32	2	JPMorgan	30.07

Lender rankings

The rankings are presented in overall as well as custodian and third party format. While most offer both forms of service, many of the lenders have only received enough responses to qualify in one form or the other. This means that a lender’s overall score may be different from its score in the custodian/third party tables.

For example, JPMorgan qualified (top) of the custodian overall table but did not qualify for the third party table – but the responses it did receive in third party changed its overall score from 6.28 to 6.25. Only Brown Brothers Harriman – which dominated the overall footprint table due to its high volume of responses – qualified for both custodian and third party tables.

The only exceptions to this adjustment were GSAL, which is purely a third party lender, and RBC Dexia, which received no third party responses. The scores for custodians were lower scores than for third party lenders, on average, perhaps reflecting the extra effort third parties need to put into relationships to secure business away from the convenience of a custodial relationship.

The top unweighted custodian score of JPMorgan would have only been enough for fourth place in the third party table. The spread of results for custodians was also thinner, with 0.67 differentiating the top and bottom scores, in unweighted, compared to 0.72 for the equivalent third party table.

There was also a geographical split in business models. No third party lender qualified in the Asia Pacific region while JPMorgan achieved the highest result among custodians in each of the unweighted, weighted and footprint categories.

CUSTODIANS - OVERALL								
UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	JPMorgan	6.28	1	Brown Brother Harriman	11.13	1	Brown Brother Harriman	178.00
2	Citi	6.28	2	Citi	10.38	2	JPMorgan	150.82
3	BNY Mellon	6.25	3	State Street	9.93	3	BNY Mellon	147.32
4	Brown Brother Harriman	6.12	4	BNY Mellon	9.82	4	State Street	119.12
5	RBC Dexia	5.73	5	JPMorgan	9.77	5	Citi	113.0
6	State Street	5.41	6	RBC Dexia	8.99	6	RBC Dexia	74.53

CUSTODIANS - EMEA								
UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	Brown Brothers Harriman	6.31	1	Brown Brothers Harriman	11.56	1	Citi	59.89
2	JPMorgan	6.22	2	Citi	10.69	2	JPMorgan	49.76
3	BNY Mellon	6.21	3	RBC Dexia	9.06	3	RBC Dexia	41.12
4	Citi	5.99	4	State Street	8.16	4	State Street	31.64
5	RBC Dexia	5.87	5	BNY Mellon	8.13	5	Brown Brothers Harriman	31.53
6	State Street	5.27	6	JPMorgan	7.91	6	BNY Mellon	31.04

CUSTODIANS - AMERICAS								
UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	Citi	6.64	1	JPMorgan	11.79	1	JPMorgan	69.10
2	JPMorgan	6.28	2	State Street	11.67	2	BNY Mellon	62.76
3	BNY Mellon	6.28	3	Brown Brothers Harriman	10.86	3	Brown Brothers Harriman	60.48
4	Brown Brothers Harriman	6.05	4	BNY Mellon	10.67	4	State Street	58.23
5	RBC Dexia	5.57	5	Citi	10.00	5	Citi	53.13
6	State Street	5.29	6	RBC Dexia	8.91	6	RBC Dexia	33.41

CUSTODIANS - ASIA PACIFIC								
UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	JPMorgan	6.39	1	JPMorgan	8.32	1	JPMorgan	31.97
2	State Street	5.85	2	State Street	8.21	2	State Street	29.25

THIRD PARTY - OVERALL								
UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	eSecLending	6.77	1	Goldman Sachs Agency Lending	11.72	1	Goldman Sachs Agency Lending	107.13
2	Goldman Sachs Agency Lending	6.70	2	Brown Brothers Harriman	11.02	2	eSecLending	81.19
3	Brown Brothers Harriman	6.45	3	Deutsche Agency Lending	10.94	3	Deutsche Agency Lending	78.64
4	Deutsche Agency Lending	6.05	4	eSecLending	9.82	4	Brown Brothers Harriman	77.42

THIRD PARTY - AMERICAS								
UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	eSecLending Americas	6.80	1	Brown Brothers Harriman	12.30	1	Goldman Sachs Agency Lending	73.40
2	Goldman Sachs Agency Lending	6.67	2	Deutsche Agency Lending	11.39	2	Brown Brothers Harriman	46.46
3	Brown Brothers Harriman	6.64	3	Goldman Sachs Agency Lending	10.91	3	eSecLending	34.02
4	Deutsche Agency Lending	5.98	4	eSecLending Americas	10.13	4	Deutsche Agency Lending	29.90

THIRD PARTY - EMEA								
UNWEIGHTED			WEIGHTED			FOOTPRINT		
Rank		Score	Rank		Score	Rank		Score
1	Goldman Sachs Agency	6.75	1	Goldman Sachs Agency	13.52	1	Deutsche Agency Lending	48.74
2	eSecLending	6.74	2	Deutsche Agency Lending	10.66	2	eSecLending	47.69
3	Brown Brothers Harriman	6.19	3	eSecLending	9.60	3	Goldman Sachs Agency	33.73
4	Deutsche Agency Lending	6.09	4	Brown Brothers Harriman	9.22	4	Brown Brothers Harriman	30.96

Service categories
The service categories on which lenders were rated were also overhauled and expanded from nine to 12 areas. Several were retained: income generated, costs, risk management and settlement & responsiveness to recalls.

Market coverage was split into developed and emerging market categories. Reporting capability became reporting and transparency. Handling of corporate actions/dividends became dividend collection.

Finally, creditworthiness of service provider (which is not really a subjective judgement) was dropped in favour of programme customisation, market due diligence and lending programme parameter management.

The overall service category tables were dominated by eSecLending, which secured top spot in ten out of the twelve tables. GSAL won the remaining two categories. For the second spots, the rankings were reversed (although one GSAL spot was shared with BNY Mellon).

SERVICE CATEGORIES - OVERALL

PROGRAMME CUSTOMISATION

Rank		Score
1	Goldman Sachs Agency Lending	6.93
2	eSecLending	6.82
3	Deutsche Agency Lending	6.71
4	Brown Brothers Harriman	6.27
=5	Citi	6.21
=5	JPMorgan	6.21
7	BNY Mellon	6.18
8	RBC Dexia	5.33
9	State Street	5.10

COSTS

Rank		Score
1	Goldman Sachs Agency Lending	6.73
2	eSecLending	6.42
3	Deutsche Agency Lending	6.21
4	Citi	6.20
5	Brown Brothers Harriman	6.04
6	JPMorgan	5.81
7	BNY Mellon	5.76
8	State Street	5.36
9	RBC Dexia	5.17

DIVIDEND COLLECTION

Rank		Score
1	eSecLending	6.90
2	Goldman Sachs Agency Lending	6.60
3	Deutsche Agency Lending	6.42
4	Citi	6.39
5	BNY Mellon	6.27
6	JPMorgan	6.08
7	Brown Brothers Harriman	6.04
8	RBC Dexia	5.69
9	State Street	5.57

INCOME GENERATED

Rank		Score
1	eSecLending	6.64
2	Goldman Sachs Agency Lending	6.56
3	Citi	6.29
4	Deutsche Agency Lending	6.13
5	JPMorgan	6.04
6	BNY Mellon	5.94
7	Brown Brothers Harriman	5.73
8	RBC Dexia	5.38
9	State Street	5.27

MARKET COVERAGE (DEVELOPED MARKETS)

Rank		Score
1	eSecLending	6.82
2	Goldman Sachs Agency Lending	6.81
3	BNY Mellon	6.53
4	JPMorgan	6.40
5	Citi	6.25
6	Deutsche Agency Lending	6.07
7	Brown Brothers Harriman	5.96
8	RBC Dexia	5.55
9	State Street	5.50

MARKET COVERAGE (EMERGING MARKETS)

Rank		Score
1	eSecLending	6.70
=2	Goldman Sachs Agency Lending	6.25
=3	BNY Mellon	6.25
4	JPMorgan	6.11
5	Deutsche Agency Lending	6.09
6	Citi	6.08
7	Brown Brothers Harriman	5.75
8	RBC Dexia	5.25
9	State Street	5.06

LENDING PROGRAMME PARAMETER MANAGEMENT

Rank		Score
1	eSecLending	6.90
2	Goldman Sachs Agency Lending	6.79
3	BNY Mellon	6.53
4	Citi	6.42
5	Deutsche Agency Lending	6.38
6	Brown Brothers Harriman	6.35
7	JPMorgan	6.20
8	RBC Dexia	5.45
9	State Street	5.27

RELATIONSHIP MANAGEMENT

Rank		Score
1	eSecLending	7.00
2	Goldman Sachs Agency Lending	6.79
3	BNY Mellon	6.65
4	Brown Brothers Harriman	6.56
5	JPMorgan	6.48
6	Citi	6.40
7	Deutsche Agency Lending	6.27
8	RBC Dexia	6.08
9	State Street	5.78

REPORTING AND TRANSPARENCY

Rank		Score
1	eSecLending	6.80
2	Goldman Sachs Agency Lending	6.73
3	Deutsche Agency Lending	6.62
4	Brown Brothers Harriman	6.46
5	BNY Mellon	6.29
6	JPMorgan	6.20
7	Citi	6.10
8	RBC Dexia	5.85
9	State Street	5.32

SETTLEMENT AND RESPONSIVENESS TO RECALLS

Rank		Score
1	eSecLending	6.80
2	Goldman Sachs Agency Lending	6.67
3	BNY Mellon	6.63
4	Citi	6.48
5	JPMorgan	6.32
6	Brown Brothers Harriman	6.31
7	Deutsche Agency Lending	6.27
8	RBC Dexia	6.23
9	State Street	5.61

MARKET DUE DILIGENCE

Rank		Score
1	eSecLending	6.73
2	Goldman Sachs Agency Lending	6.57
3	JPMorgan	6.48
4	Citi	6.44
5	Brown Brothers Harriman	6.42
6	BNY Mellon	6.29
7	Deutsche Agency Lending	6.10
8	RBC Dexia	5.77
9	State Street	5.45

RISK MANAGEMENT

Rank		Score
1	eSecLending	6.82
2	Goldman Sachs Agency Lending	6.75
=3	Brown Brothers Harriman	6.46
=3	JPMorgan	6.46
=5	RBC Dexia	6.38
=5	Citi	6.38
=5	BNY Mellon	6.38
8	Deutsche Agency Lending	5.90
9	State Street	5.50

Third places were spread more evenly among the competition: Deutsche Agency Lending won four; BNY Mellon achieved four; JPMorgan two (one of which was shared); Citi one; and BBH one (shared).

The top spots in the custodian service category tables were dominated by BNY Mellon with seven victories (one shared). The remainder was split between JPMorgan, achieving top spot in three, and Citi, also three but with one shared with BNY Mellon.

SERVICE CATEGORIES - CUSTODIAN

PROGRAMME CUSTOMISATION

Rank		Score
1	JPMorgan	6.23
2	BNY Mellon	6.18
=3	Brown Brothers Harriman	6.13
=3	Citi	6.13
5	RBC Dexia	5.33
6	State Street	5.00

COSTS

Rank		Score
1	Citi	6.06
2	Brown Brothers Harriman	6.00
3	JPMorgan	5.83
4	BNY Mellon	5.76
5	State Street	5.29
6	RBC Dexia	5.17

DIVIDEND COLLECTION

Rank		Score
=1	BNY Mellon	6.27
=1	Citi	6.27
3	Brown Brothers Harriman	6.13
4	JPMorgan	6.09
5	RBC Dexia	5.69
6	State Street	5.55

INCOME GENERATED

Rank		Score
1	Citi	6.22
2	JPMorgan	6.08
3	BNY Mellon	5.94
4	Brown Brothers Harriman	5.69
5	RBC Dexia	5.38
6	State Street	5.19

MARKET COVERAGE (DEVELOPED MARKETS)

Rank		Score
1	BNY Mellon	6.53
2	JPMorgan	6.39
3	Citi	6.21
4	Brown Brothers Harriman	5.87
5	RBC Dexia	5.55
6	State Street	5.42

MARKET COVERAGE (EMERGING MARKETS)

Rank		Score
1	BNY Mellon	6.25
2	JPMorgan	6.06
3	Citi	6.00
4	Brown Brothers Harriman	5.64
5	RBC Dexia	5.25
6	State Street	5.00

LENDING PROGRAMME PARAMETER MANAGEMENT

Rank		Score
1	BNY Mellon	6.53
2	Citi	6.47
3	JPMorgan	6.26
4	Brown Brothers Harriman	6.19
5	RBC Dexia	5.45
6	State Street	5.19

RELATIONSHIP MANAGEMENT

Rank		Score
1	BNY Mellon	6.65
2	JPMorgan	6.61
3	Citi	6.44
4	Brown Brothers Harriman	6.40
5	RBC Dexia	6.08
6	State Street	5.73

REPORTING AND TRANSPARENCY

Rank		Score
1	BNY Mellon	6.29
2	JPMorgan	6.26
3	Brown Brothers Harriman	6.25
4	Citi	6.17
5	RBC Dexia	5.85
6	State Street	5.24

SETTLEMENT AND RESPONSIVENESS TO RECALLS

Rank		Score
1	BNY Mellon	6.63
2	Citi	6.44
3	JPMorgan	6.35
4	Brown Brothers Harriman	6.25
5	RBC Dexia	6.23
6	State Street	5.55

MARKET DUE DILIGENCE

Rank		Score
1	JPMorgan	6.48
2	Citi	6.44
3	Brown Brothers Harriman	6.38
4	BNY Mellon	6.29
5	RBC Dexia	5.77
6	State Street	5.38

RISK MANAGEMENT

Rank		Score
1	JPMorgan	6.54
=2	RBC Dexia	6.38
=2	BNY Mellon	6.38
4	Citi	6.33
5	Brown Brothers Harriman	6.25
6	State Street	5.43

The corresponding third party tables were topped most often by eSecLending with seven victories (one shared). GSAL was next best with four (also one shared). Brown Brothers Harriman achieved top spot in the remaining two.

SERVICE CATEGORIES - THIRD PARTY

PROGRAMME CUSTOMISATION

Rank		Score
1	Goldman Sachs Agency Lending	6.93
2	eSecLending	6.78
3	Deutsche Agency Lending	6.67
4	Brown Brothers Harriman	6.50

COSTS

Rank		Score
1	Goldman Sachs Agency Lending	6.73
2	eSecLending	6.30
3	Deutsche Agency Lending	6.17
4	Brown Brothers Harriman	6.10

DIVIDEND COLLECTION

Rank		Score
1	eSecLending	6.88
2	Goldman Sachs Agency Lending	6.60
3	Deutsche Agency Lending	6.40
4	Brown Brothers Harriman	5.90

INCOME GENERATED

Rank		Score
=1	Goldman Sachs Agency Lending	6.56
=1	eSecLending	6.56
3	Deutsche Agency Lending	6.00
4	Brown Brothers Harriman	5.80

MARKET COVERAGE (DEVELOPED MARKETS)

Rank		Score
1	Goldman Sachs Agency Lending	6.81
2	eSecLending	6.78
3	Brown Brothers Harriman	6.13
4	Deutsche Agency Lending	5.92

MARKET COVERAGE (EMERGING MARKETS)

Rank		Score
1	eSecLending	6.63
2	Goldman Sachs Agency Lending	6.25
=3	Brown Brothers Harriman	6.00
=3	Deutsche Agency Lending	6.00

LENDING PROGRAMME PARAMETER MANAGEMENT

Rank		Score
1	eSecLending	6.88
2	Goldman Sachs Agency Lending	6.79
3	Brown Brothers Harriman	6.60
4	Deutsche Agency Lending	6.27

RELATIONSHIP MANAGEMENT

Rank		Score
1	eSecLending	7.00
2	Brown Brothers Harriman	6.80
3	Goldman Sachs Agency Lending	6.79
4	Deutsche Agency Lending	6.20

REPORTING AND TRANSPARENCY

Rank		Score
1	Brown Brothers Harriman	6.80
2	eSecLending	6.75
3	Goldman Sachs Agency Lending	6.73
4	Deutsche Agency Lending	6.64

SETTLEMENT AND RESPONSIVENESS TO RECALLS

Rank		Score
1	eSecLending	6.75
2	Goldman Sachs Agency Lending	6.67
3	Brown Brothers Harriman	6.40
4	Deutsche Agency Lending	6.22

MARKET DUE DILIGENCE

Rank		Score
1	eSecLending	6.67
2	Goldman Sachs Agency Lending	6.57
3	Brown Brothers Harriman	6.50
4	Deutsche Agency Lending	6.00

RISK MANAGEMENT

Rank		Score
1	Brown Brothers Harriman	6.80
2	eSecLending	6.78
3	Goldman Sachs Agency Lending	6.75
4	Deutsche Agency Lending	5.75

Concerns of beneficial owners

In addition to rating their lenders, beneficial owners were asked a series of qualitative questions relating to their experiences, predictions and practices generally. Unsurprisingly, the most frequently cited challenge for securities lending programmes was risk. The forms of risk cited were evenly split between credit risk, counterparty risk and market risk/volatility, which are ultimately connected anyway.

A handful of respondents also mentioned risks attached to the way their lender runs their programme. One said its biggest concern was “a lending agent who regularly proposes that we increase the risk of the program”.

Several were also concerned about how to conduct ongoing due diligence over their lender: “Maintaining a solid, reliable, independent view of the risks being taken on our behalf by the assorted agent lenders” and “Monitor risk and maintain liquidity while having sufficient spread and yield” were among the comments.

The second biggest group of concerns was over low returns – a concern that is unlikely to improve in the near future. One respondent summed up the concerns of many: “Very little spread can be generated in this environment given our reinvestment guidelines and the low level of rates.

The biggest challenge is generating spread without adding significant risk.” There was particular concern around cash reinvestment arrangements, where the available spread from low risk reinvestment is particularly low.

Less commonly mentioned problems (but still cited by at least 5 respondents) were the macroeconomic situation; the eurozone sovereign bond crisis; new regulatory requirements; quality of collateral; low demand from hedge funds; and reinvestment programmes.

There was also a wide selection of unique concerns from beneficial owners related to issues such as IT and infrastructure.

Beneficial owners survey methodology 2012

Beneficial owners are asked to assess the performance of their securities lending agents.
There are three overall tables: unweighted, weighted (by respondent size) and footprint (weighted by number of respondents).

Overall unweighted
Respondents are asked to rate their service providers across 12 service categories, from one (very poor) to seven (excellent). These ratings are then averaged to provide an overall score. The overall scores from all respondents are then averaged to create the final unweighted score.

Overall weighted
Weightings are generated according to the relative size of the respondent's lendable portfolio to that of the other respondents in the survey. For respondents in the bottom quartile, average scores are multiplied by one; second quartile by 1.5; third by 2; and fourth by 2.5. Respondents that do not provide their lendable portfolio size will be assigned a default weighting of 1.5.

Overall footprint
The scores of lenders in this table increase with the number of beneficial owners providing ratings. Each lender's unweighted score is multiplied by the number of responses it received.

Custodial and non-custodial
All tables beyond the overall tables are divided into two sections: custodial agent lenders and third party agent lenders. Respondents' ratings are included in one section or the other depending on whether the lender provides custodial services for the lending programme being rated.

Therefore, some lenders will be included as both custodial and non-custodial lenders. For each of the custodial agent lender and third party agent lender sections there will be:

- Three overall tables: unweighted, weighted and footprint
- Regional tables: separate tables are produced for the EMEA, Americas and Asia Pacific regions, each with the usual unweighted, weighted and footprint division
- 12 service category tables

Service categories
Respondents are asked to rate each of their lenders from one to seven across 12 service categories. The ratings of respondents for each service category are averaged to produce the final score for each lender. The service categories are:

- Income generated
- Risk management
- Reporting and transparency
- Settlement & responsiveness to recalls
- Handling of corporate actions/dividends
- Costs
- Relationship management
- Market due diligence
- Market coverage (developed market)
- Market coverage (emerging market)
- Collateral flexibility
- Lending parameter management

Qualification

To qualify for the overall tables, a lender must receive a minimum of seven responses in one of the regions (EMEA, Americas, Asia Pacific) and also receive five responses in one of the other regions. Lenders therefore need a minimum of 12 responses to qualify for the overall tables.

To qualify for the overall custodial and third party agent lender tables, lenders need a minimum of seven responses across all regions. To qualify for the corresponding regional tables, lenders need five responses in EMEA, five in the Americas and 3 in Asia Pacific.

To qualify for each service category table, a minimum of three responses is required.