



Citigroup opens lending door in Taiwan

CITIGROUP has completed the first agent-based securities lending transaction in Taiwan after 14 months of preparation.

It is no secret that for the past two years Taiwan has been seen as the hottest emerging market in Asia and it was only a matter of time before a lender completed this transaction.

Brian Staunton, a securities finance director within global transaction services at Citigroup says: "We have been working on getting this transaction done for between 12 and 14 months. It may seem like a long time but we were reliant on some external factors like the regulators."

Foreign demand

Taiwan has kept a close eye on Korea's lending model, which is already established. Both countries are striving for more foreign investment, which is aided by the growing demand for these securities in London. Prime brokers in London are

looking to supply their hedge funds with Asian securities. There is as much interest in London as in Asia to get these markets up and running.

Staunton said the trade has given Citigroup some key knowledge about how to streamline the process. "It was a learning process with the regulators and our local branch in Taipei. We have a great relationship with the regulators in Taiwan. We have found them to be open to meeting requests and holding discussions about market structure. We were impressed with the lengths they went to in order to introduce the regulations that would help support a securities lending transaction."

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The willingness of the Taiwanese regulators to aid in the advancement of their market is well documented. The regulators are very proactive in meeting the

STAUNTON'S TOP 5 EUROPEAN MARKETS

- 1 Russia
- 2 Hungary
- 3 Czech Republic
- 4 Turkey
- 5 Poland

securities lending industry and discussing ways to move the market forward.

However the biggest obstacle in the Taiwanese market is the mismatch in settlement cycles. The time frame for purchases is T+1 and for sales it is T+2, but Taiwan is open to creating a different framework.

Citigroup's Staunton says: "As much as we would like to see regulations changing a

lot quicker in any market, the regulators have to take their time. They are trying to create a more level playing field in terms of settlement cycles and they want to introduce a fails lending programme so that if you are potentially going to fail on a transaction then you can borrow from the exchange, which will add a lot of comfort to that market."

The lending fees in Taiwan are currently high, but other lenders are anticipated to enter the market, which should bring prices down. "It is just supply and demand in relation to the fees. Whilst the supply is limited, the fees are quite high," Staunton said. "I would imagine that the other agent lenders are in different stages of looking at this product."

Citigroup has its eye now on India and is already 25% into its project there. "We are always looking to bring new markets on board. But this is subject to the market's regulatory framework and what it allows. It is a balancing act between markets we can access quickly and others which take time like Taiwan," says Staunton.

He added: "The Indian regulators are receptive to us. We have a big presence in India and from what I have seen they are very open to the industry speaking to them."

Besides Taiwan and now India Citi has also looked elsewhere for growth. "We are also looking at the Eastern European markets, Chile and Brazil. We already lend in Mexico being there for approximately two years." ■