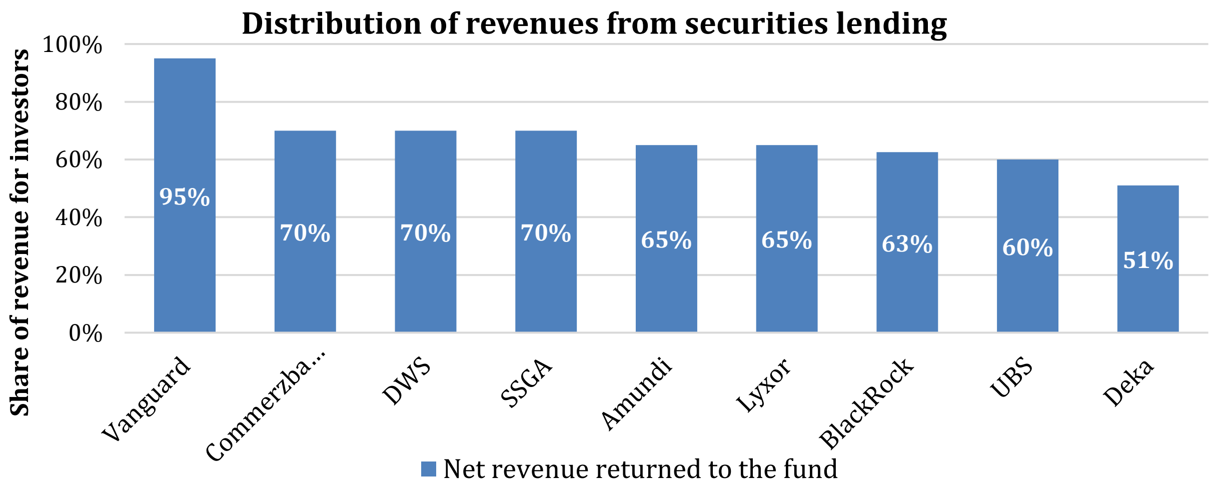
PRESS RELEASE - NEW INDEPENDENT RESEARCH FINDINGS

FUND MANAGERS FREQUENTLY POCKET LARGE PORTIONS OF THE REVENUES OF SECURITIES LENDING

Brussels, 11 May 2019 – Securities lending is the practice of lending a stock, bond or other financial instrument in exchange for interest. Typically, the borrower pays a fee to the lender for the shares.

EU rules[1] governing the practice of securities lending by UCITS funds, stipulate that 100% of the income from securities lending - net of direct and indirect operational costs - must be returned to the funds. Securities lending or repurchase agreements should always be aimed at increasing the return of the fund and can't be used to generate surplus income for the fund management company. Yet in practice many asset managers pocket from a third to nearly half of the revenues generated from securities lending.

An analysis of mandatory fund disclosure documents performed by BETTER FINANCE[2] found that leading ETF fund managers have very diverging approaches (see graph) to the income distribution from their securities lending transactions. One manager returns as much as 95% of the revenues to the fund, keeping just 5% to cover for the operational costs incurred. Other managers, however, pocket up to ten times that amount (49%). This raises serious concerns with regards to their compliance with the rule from the European Securities and Markets Authority (ESMA) that 100% of the net income from securities lending must be returned to the funds.



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BETTER FINANCE urges National Competent Authorities and ESMA to investigate how operational costs incurred by securities lending can vary so dramatically - from 5% to 49% of revenues - from one fund manager to the other. Pending any further explanations from fund managers, BETTER FINANCE strongly suspects that a significant part of the net income derived from securities lending would not be returned to fund investors as it should be.

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[1] European Securities and Markets Authority (ESMA) Guidelines for competent authorities and UCITS management companies: Guidelines on ETFs and other UCITS issues of 18/12/2012 (ESMA/2012/832EN) and 01.08.2014 (ESMA/2014/937EN).

[2] Efficient Portfolio Management Techniques: Attribution of profits derived from Securities Lending by UCITS Exchange-Traded Funds: https://betterfinance.eu/publication/fund-research-efficient-portfolio-management-techniques-attribution-of-profits-derived-from-securities-lending-by-ucits-exchange-traded-funds/

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