Deutsche Bank

flow briefing



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Topic
Securities lending

Why agency securities lending is becoming more important

What elevates an ordinary security into a sought-after 'special' – and how can investors capture the resulting premium? This *flow* briefing explains the mechanics of securities lending, explores market events, regional dynamics and index rebalancings, while outlining how beneficial owners can assess potential returns against liquidity, concentration and operational risks.

Securities lending has been around for more than 50 years and provides essential market plumbing to facilitate market liquidity. Without securities lending, assets may remain overvalued, settlement fails would increase, and the ability to reduce market frictions via efficient financing structures would remain nearly impossible. As securities lending enables investors to illustrate competing views, it reduces bid-ask spreads and improves overall asset price efficiency.

For long-term institutional investors, securities lending offers an opportunity to generate incremental income from existing portfolios – and the scale of that opportunity is growing. Industry revenue reached a record US$14.9bn in 2025, up 27% year on year,[1] with a further increase of 33% over the first half of 2026.[2] Growth was supported by higher loan balances, stronger returns in Asia Pacific (APAC) and increased exchange-traded fund (ETF) lending.

Yet, securities lending is still not fully understood across the market. Although it is increasingly used by underlying retail investors to offset fees, not all market participants understand the full risk versus reward of securities lending. This briefing is intended to explain the mechanics, help identify opportunities, and evaluate how various ETF market events influence market returns.

> "Holding a security and recognising its lending potential are two different things. An experienced lending agent helps investors understand where borrowing demand can be met from their portfolio and translate this into incremental income, while managing the operational complexity and working within agreed risk parameters."
>
> **Cassie von-Sprecher**

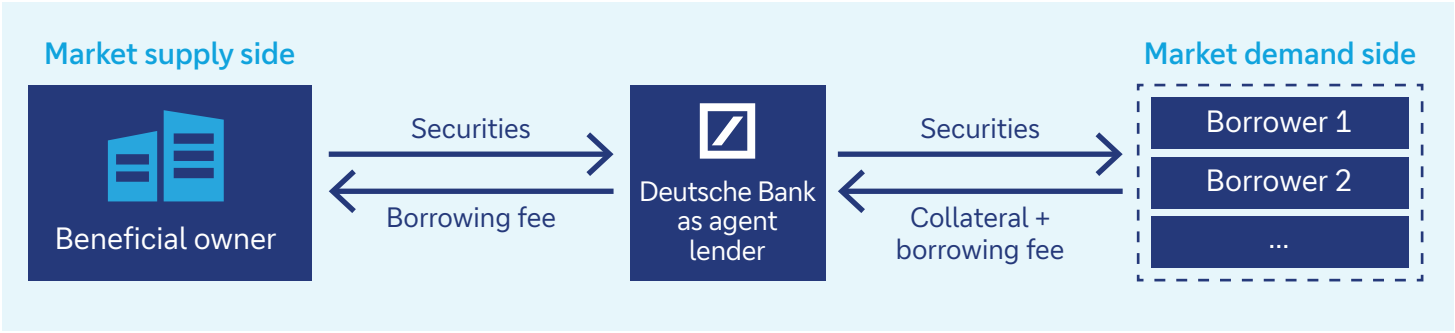
Understanding securities lending

Securities borrowing and lending (SBL) is a regulated capital-markets practice involving the temporary transfer of legal ownership of equities or fixed-income securities from a lender to a borrower against collateral. SBL supports liquidity, hedging, market making, relative-value strategies and efficient settlement, while enabling long-term investors to generate additional income from their holdings. It generally involves three parties:

- **Beneficial owner.** A pension fund, mutual fund, sovereign wealth fund or insurer holding assets and seeking incremental income from long-term investments.
- **Borrower.** A broker-dealer, market maker, hedge fund or proprietary trading desk requiring securities for settlement, hedging, financing or relative-value strategies.

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Figure 1: Agency lender transaction structure



– **Lending agent.** A specialist intermediary that manages execution, collateral, lifecycle events, reporting and counterparty controls on behalf of the beneficial owner.

Engaging in securities lending requires legal documentation, operational infrastructure and dedicated trading activity. This setup, and the associated day-to-day activity, can be outsourced to an agent lender acting on behalf of the beneficial owner (see Figure 1).

To give an example, consider one ETF that lends securities from its portfolio and one that doesn't. For the ETF that doesn't utilise securities lending, the performance of the fund fluctuates with the market returns only. This means that the tracking error – a measurement of how closely the fund follows the performance of its benchmark index – remains uninfluenced. By contrast, the ETF that has a securities lending programme generates an additional stream of income from its existing portfolio. The returns from this programme are largely uncorrelated with the returns from the ETF, providing an often-overlooked diversification benefit. This can push out the efficient frontier of the portfolio – meaning that the ETF can generate higher overall returns with relatively little additional risk.

What makes a security 'special'?

At the heart of securities lending economics is the relationship between borrower demand and lendable supply. The scarcity premium – often termed 'specialness' – arises when strong demand for a particular security meets limited availability.

Once a security becomes highly sought after or difficult to source, it can move from being categorised as general collateral to a special. Fees for specials may be significantly higher than those for general collateral, although they vary according to the asset, currency, tenor and collateral type (see Figure 2).

Other factors influencing the scarcity premium include the prevailing market conditions, regional dynamics and the impact of index rebalancing.

Driver one: prevailing market conditions

A range of events and market conditions can also make a security 'special'. The most common drivers are:

– Corporate actions and arbitrage. M&As, tender offers, rights issues and scrip dividends create hedging and settlement demand.

– Float constraints. Small-cap, thematic and newly listed names can move into special territory even on modest demand.

– Directional short selling. Concentrated negative views following earnings misses, sector deterioration or structural disruption.

– Benchmark/ on-the-run status. Newly issued government bonds may be heavily used for hedging or relative value trades, or auction timing can affect demand.

Figure 2: General collateral and specials compared

General collateral	Specials
High float and liquidity	Low float or hard-to-borrow
Broad lendable supply (such as S&P 500, G10 fixed income)	Concentrated demand
Stable, low fees	Premium and volatile fees
Typically large-cap holdings	Often small-cap, thematic or event-driven

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Figure 3: Illustrative 2026 specials and associated catalysts

Security	Region	Catalyst	Description
GameStop	US	Directional short selling	Meme stocks such as GameStop have attracted significant short-selling demand, creating opportunities for higher securities lending returns
SpaceX	US	IPO/ corporate action	SpaceX's high-profile IPO generated significant short-selling demand, driving up lending fees amid limited available supply
Hesai Group (2525 HK)	APAC	Addition to MSCI list	Hesai Group, a provider of LiDAR technology for autonomous vehicles, experienced increased borrowing demand following its inclusion in an MSCI index
Taiwan Equities	APAC	Supply restrictions	Strong demand for Taiwanese semiconductor stocks, combined with limited lendable supply, has supported elevated lending fees across the market

Figure 3 outlines several recent real-world examples.

Driver two: why the regional mix matters

Lending economics vary by jurisdiction because of differences in market depth, ownership concentration, regulation, tax, settlement practices and collateral conventions (see Figure 4). These differences can have a significant impact on the premiums available to investors, for example:

- **United States.** Deep liquidity and broad lendable supply can suppress average fees, particularly where general collateral dominates. However, individual securities experiencing concentrated demand can still attract higher premiums.
- **Europe.** Revenue from specials has declined in recent years, reflecting limited corporate action activity, tax restrictions and greater cash availability. However, continued government bond issuance could create renewed opportunities for collateral upgrades, while demand for longer-dated financing from broker-dealers makes term lending particularly relevant to Net Stable Funding Ratio requirements.
- **APAC.** Securities lending returns remain strong, although operational constraints can limit participation. In Taiwan, for example, stringent buy-in rules for settlement failures, local custody requirements and restrictions on short selling create additional complexity for investors and borrowers.

For beneficial owners, these regional differences emphasise the importance of looking beyond headline lending fees. Markets offering higher premiums may also present greater liquidity, recall and concentration risks, as well as additional operational costs and constraints. Investors should therefore assess where expected net returns remain attractive relative to these considerations.

Flexibility and diversification are also central to an effective lending programme. Adaptable parameters enable investors to respond to shifts in market demand, preferred lending tenors and collateral requirements, helping them capture opportunities as revenue drivers evolve across securities lending markets.

Figure 4: Historical averages across selected jurisdictions

Region	Total Asset Value (US$tn)	Volume on loan (US$tn)	Utilisation %	Volume-weighted average fee (bps)
Americas	41.54	3.20	6.43	31
Asia Pacific	4.99	0.65	8.90	143
Europe	8.35	1.00	9.08	29
Other	0.78	0.05	4.69	73

Source: S&P Market Insights 01.10.2026

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Driver three: index rebalancing and reconstruction

Index providers such as S&P Dow Jones, MSCI, FTSE Russell and STOXX periodically rebalance their indices, adjusting constituent weights in line with their methodologies. These scheduled changes are significant as they can affect demand for individual securities. In fact, research suggests that index rebalancing can create notable pricing anomalies in securities markets, with historical rebalancing cycles pointing to two recurring patterns:

Lending opportunities can increase around index rebalances. International Securities Lending Association's 2025 Market Report notes that MSCI and ASX rebalances generate strong securities-lending flows across index additions and deletions, while index-rebalancing activity can constrain effective supply and contribute to sharper lending-rate moves and more intense hard-to-borrow conditions.[3]

High fees can slow price adjustment. Stocks facing the sharpest fee increases after an index deletion may take longer to adjust in price because high borrowing costs make it harder for short sellers to act on negative views.[4] For lenders, that friction can translate into a premium from borrowers prepared to pay more to secure inventory. [5]

Rebalancing and index reconstruction events do, however, follow transparent, publicly available calendars, with passive funds required to implement the announced changes close to the effective date to minimise tracking error against the underlying index (see Figure 5). Beneficial owners should therefore monitor the timetable and assess which holdings may experience changes in borrowing demand, lendable supply and potential lending returns.

For portfolio managers, this can unlock a clear opportunity: lend assets when demand is high and earn additional fees that flow directly back to the fund. A capable lending agent can help identify these moments and turn existing inventory into premium lending income.

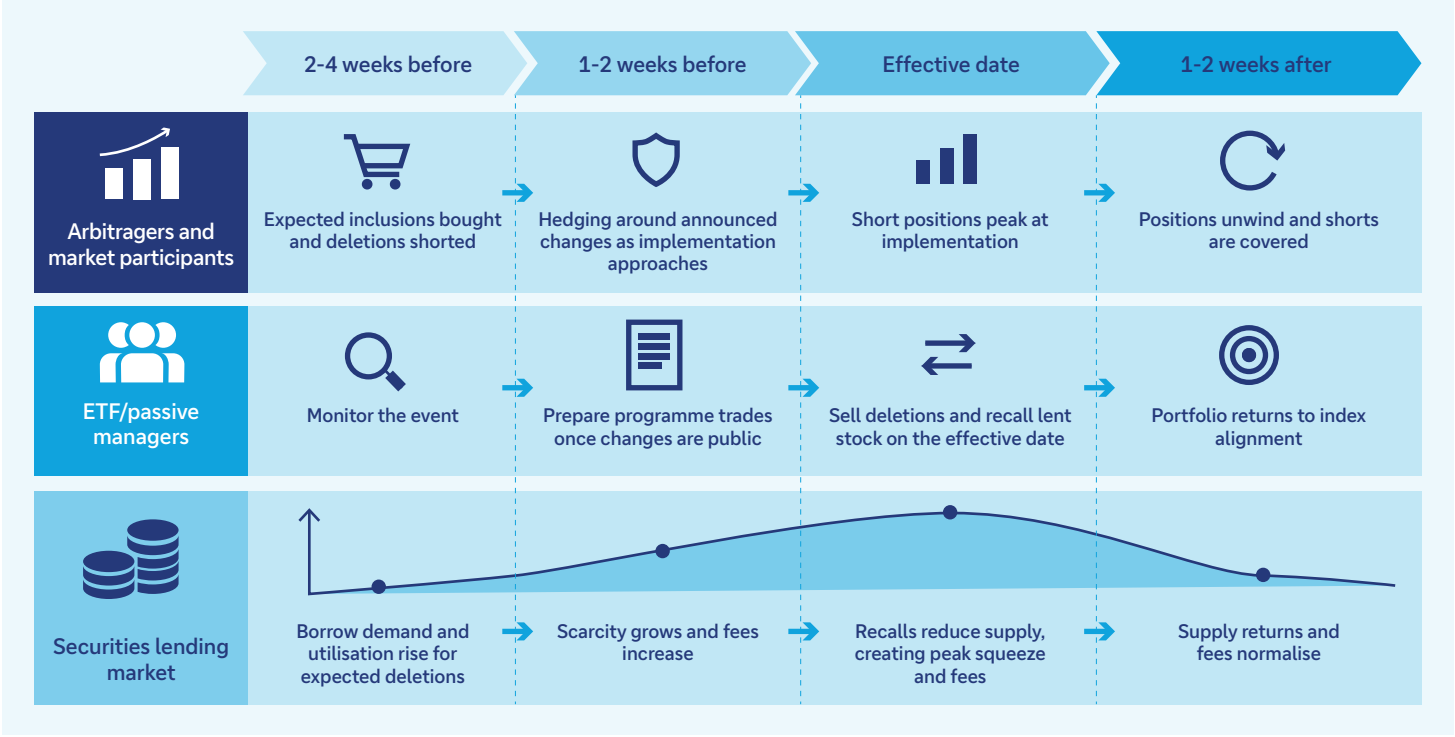
Capturing the opportunity: what beneficial owners should consider

For beneficial owners, the opportunity lies not simply in making securities available for lending, but in understanding and anticipating where and when demand is likely to generate the greatest returns. As market conditions, regional dynamics and index events reshape borrowing demand, flexibility and diversification are central to an effective lending programme.

Working with an experienced lending agent can help investors identify these opportunities, adapt their programmes to changing market conditions and capture incremental income while managing the associated liquidity, concentration and operational risks.

> "A security's lending value is not simply a function of its size or market performance. It depends on who needs to borrow it, when they need it and how readily it can be sourced. Understanding those dynamics is central to unlocking the opportunity within a portfolio."
>
> **Leon Kurz**

Figure 5: The index reconstruction flywheel for securities lending



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[1] https://www.spglobal.com/market-intelligence/en/news-insights/research/2026/01/securities-finance-december-q4-h2-and-full-year-snapshot-2025

[2] https://www.spglobal.com/market-intelligence/en/news-insights/research/2026/07/global-securities-finance-snapshot-june-q2-and-h1-2026

[3] https://docs.islagroup.org/download/latest/isla-h2-2025marketreport

[4] Saffi, P.A.C. and Sigurdsson, K., 2011. Price efficiency and short selling. The Review of Financial Studies, 24(3).

[5] Contreras, H., Fidrmuc, J.P. and Kozhan, R., 2017. Insider Selling on Public Information: Evidence from Competition with Short Sellers. University of Chile / Warwick Business School Working Paper.

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