

SECURITIES FINANCE TIMES

Playing the part

22 April 2025

HSBC's Curtis Dutton, global head of trading, agency securities lending and liquidity services, reviews the performance of the Middle East over the past 12 months, and what is next for its securities lending and borrowing market



Securities borrowing and lending (SBL) in the Middle East continues to evolve.

2024 was certainly a remarkable year for securities financing in the Middle East. We saw further steps taken by countries across the region to evolve the market. Indeed, Saudi Arabia is attracting growing demand, with securities lending volumes through Edaa increasing over 10 times through the course of 2024. That same opportunity is gathering motion also for other countries in the region.

The Kingdom of Saudi Arabia took centre stage in terms of securities lending transactions last year, as we saw both demand and supply channels expand. Revised regulations for transacting in Saudi Arabia were published in 2022, spurring on hedge funds, prime brokers, and lenders alike to develop the operational capabilities required to support increased volumes.

We have since witnessed securities lending activity in Saudi Arabia develop as more entrants have created solutions to both lending and short-sell rules. We saw supply open to local participation, and key market opportunities covered in many large cap names that are part of the Tadawul All-Share Index.

Liquidity management in the market has in no small part been driven by the partnerships and co-ordination across regulators, market infrastructure and market participants, which has been instrumental in itself in stimulating further growth. Efforts taken for constructive dialogue, as well as prudence in risk and liquidity management by market players, has been the bedrock of the continued development of SBL in Saudi Arabia.

Last year also saw other countries in the Middle East make strides in the SBL market. HSBC executed the first SBL transactions in Qatar and Dubai. Abu Dhabi, Kuwait, Egypt, also offer exciting SBL opportunities ahead.

Appropriate securities lending and short-sell frameworks in each jurisdiction are important to allow domestic governance of the SBL market, while also creating enough flexibility for international participation.

This international participation is paramount; as considerable liquidity is managed offshore. Indeed, with this participation, countries are more likely to generate significant inbound capital flows to assist in both liquidity and wealth creation for local capital.

At HSBC, we remain positive on the future opportunity for the Kingdom of Saudi Arabia and the wider region. Engagement is very positive, which can be seen through the most recent joint meeting on “Capital Markets & the Kingdom of Saudi Arabia — Delivering Liquidity & Depth in Derivatives, Financing & Secondary Bond Markets”, which took place in Riyadh in February.

The event was held by the International Securities Lending Association (ISLA), the International Swaps and Derivatives Association (ISDA), and the International Capital Market Association (ICMA).

Supply and demand for SBL in Saudi Arabia is, however, presently limited in terms of coverage of securities and diversification of liquidity channels (narrow range of active users).

Enhanced SBL market participation may therefore be the next stage in Saudi Arabia’s evolution. It will support improved liquidity management, a progressive step for increasing order volumes and ultimately creating more efficient pricing for securities lending execution.

Indeed, an efficient marketplace with critical volume on exchange is a key feature of any orderly functioning capital market, both in terms of effective and efficient spot pricing of securities, as well as to ensure there is as little performance drag as possible based on sub-optimal event coverage.

Infrastructure and regulatory frameworks

SBL barriers in the Middle East region are coming down. Recent developments on netting opinions in Saudi Arabia show exactly this.

Major Saudi investors are engaging closely with the idea of enforceability of collateral against default and the enhanced ability it offers to transact with international counterparties.

As such, ISLA and ISDA should be able to develop netting opinions for Saudi participants soon. This will assist local participation in securities lending, by helping domestic Saudi asset owners to extract a fair value and decent yield for the securities they hold. It could even lead to an expanded domestic supply network.

Whether in Saudi Arabia or elsewhere, securities lending participants must abide by both local laws and local practices. Sharia is, of course, one of these considerations, where we hope understanding will continue to evolve allowing expanded coverage and participation.

The next important stage in the progress of securities lending in the Middle East, is the operational ability for regional equities in particular to be used for funding and financing. Whence, the use of assets in the region as a means to extend leverage and cash.

Currently, there is very little to no mobilisation of Middle Eastern securities as collateral outside of fixed income repo. This means that long borrowing of equities can be costly to fund.

Establishing robust regulatory frameworks and mechanisms for collateral, not only will enhance the secured funding application, but it should also attract inward capital investment from sophisticated portfolio managers.

Over time, costs and barriers to transact in securities borrowing would reduce. As a result, volumes would increase in SBL and there would be more cash liquidity in local economies.

This mechanism to enable collateral and financing leads to the final catalyst for securities lending in the Middle East, which is the challenge of a fully integrated securities lending, derivatives, and portfolio management product.

The SBL volumes over the last 12 months in Saudi Arabia have been indicative of demand driven by single-name stock interest. There is, of course, an active derivatives market in the Middle East today. Where this provides an opportunity, is the use of more bespoke strategies for local markets such as options, forwards, portfolio swaps, and listed derivatives such as futures.

There are signs that collar, butterfly spreads and other strategies are becoming more accessible. Indeed, some asset managers are starting to consider call overwriting and put underwriting to generate additional yield for their portfolios, and structured deposits and notes are becoming more commonplace offerings from banks to create investor yield in the region.

It will be important to ensure that these structures can be met with the right supply hedges and with the right level of prudent management to guarantee they succeed. All with the aim of attracting further inward capital flows, more liquidity, and further wealth to the local economies.

So what is next for the Middle East securities lending and borrowing market? In a more uncertain world of geopolitical tensions and market volatility, revenue optimisation is increasingly about diversification.

This is where the Middle East can have a significant part to play, in providing a new and exciting channel for cash and collateral liquidity. In the face of increased funding costs elsewhere globally, the Middle East will continue to attract significant attention. The region's activity will naturally evolve with this.