Stock Lending Market and the BOJ's ETF purchasing program: Micro-Evidence from ETF Balance Sheet Data and Equity Repo Trading Data

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[Abstract]

The ETF (Exchange Traded Fund) purchasing program currently implemented by the Bank of Japan (BOJ) has, in contrast to other asset purchasing programs, a unique characteristic: stocks that constitute ETFs held by the BOJ can be lent freely by ETF managers. This study (1) examines whether the ETF purchasing program actually causes an expansion of the stock lending market, and (2) identifies the determinants of stock lending (or equivalently equity repo trading). We focus on two different micro-datasets of stock lending: ETF balance sheet data released by asset management companies and equity repo trading data released by the Japan Securities Dealers Association. Our empirical analysis of these datasets shows that the expansion of the ETF purchasing program has caused the substantial growth of stock lending markets. Panel regression results suggest that the size of equity repo trading tends to be larger for stocks with (a) lower free-float rates, (b) smaller market values (both are proxies for market liquidity), (c) higher valuations such as PBR, and (d) higher volatility. These results also imply that the program has contributed significantly to activating stock lending trades at the times of the bank's decisions to increase the target amounts of purchases of the program, as well as to influencing the sensitivities of the trades to market liquidity and valuations.

[Keywords]

Stock lending, ETF purchasing program, Bank of Japan