

SECURITIES LENDING: CHECKLIST FOR LENDERS



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INTRODUCTION

The following series of questions have been collated to provide a guide to the type of information/topics to be covered when considering or reviewing securities lending programmes. The list is not exhaustive and the answers will be specific to each lender. Professional advice should be sought if any of the questions give rise to difficulty or doubt.

This document is designed for use by those directly responsible for negotiating and managing securities lending activities. It may also be of interest to trustees and others with responsibility for oversight of investments.

The checklist is part of a series of three documents made up of:

- this checklist,
- an agent lender disclosure code
- an Introductory Guide which is designed for trustees of pension funds and similar office holders

The questions in bold and in blue are regarded as the key points per section.

Trustees and their advisors should remember that securities lending is part of their investment activity. As such they should satisfy themselves that any lending is consistent with their Statement of Investment Principles and their attitude to risk.

1. APPROVAL TO LEND

- a. **Do you have the necessary powers to enter into a lending programme?**
- b. Have you satisfied yourself that you have the necessary skills/knowledge in house to assess the impact of a securities lending programme on your assets? Should you get external independent advice?
- c. Is there a limit to the percentage of your assets that you are allowed, or wish to lend out? How is such a limit determined?

2. RISKS

- a. **How have you researched and understood the various risks associated with securities lending?**
- b. What level of risks are you prepared to accept?
- c. How have you determined whether to lend for term or overnight, or a combination of periods?
- d. How have you assessed that the proposed or current securities lending activity will not inadvertently impact any other investment activity you undertake?

3. AGREEMENTS

- a. What appropriate/suitable legal advice and/or tax advice have you taken?
 - b. How frequently, and under what circumstances, will you review your agreements?
 - c. What jurisdiction is the agreement entered into?
 - d. Does the lending agreement change the level of segregation of your assets (and collateral) and have you assessed the outcome of any changes?
 - e. Have you notified your investment managers that you may lend the assets?
 - f. Is an indemnity being offered within the proposed lending activity?
 - g. Do you understand the scope of the indemnity i.e. what type of assets and collateral are covered and what's not covered?
 - h. Under what circumstances will the indemnity trigger?
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4. ONGOING LENDING REPORTING AND REVIEWS

- a. How often do you plan to review your lending activity and who is responsible for undertaking the review?
 - b. What reports will you receive, are they of a suitable level of detail?
 - c. How frequently will you receive the reports and do you understand any time delays between reporting time point and receipt of the reports?
 - d. Who is responsible for the report production?
 - e. Have you researched the availability and suitability of independent benchmarking for securities lending activity?
 - f. Does your agent lender provide reports informing you of the absolute and relative performance of your programme?
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5. SEGREGATED VS. POOLED INVESTING

- a. Do you understand the difference between the lending carried out from a segregated portfolio and from a pooled vehicle?
 - b. Are you lending from segregated portfolio(s) or are your investments in a pooled fund vehicle?
 - c. For pooled fund investments what, if any, lending will be undertaken within the pool, what risk controls are applied, and what is the treatment of income from the lending activity? Will such activity lead to reduced management fees?
 - d. How and when did you inform your segregated investment manager(s) of the lending activity and how can he/she determine what assets are on loan at any time to meet their information needs?
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6. LENDING COUNTERPARTIES

- a. What counterparties will be lent to?
 - b. Are there limits of the amount lent per counterparty?
 - c. Are there limits to the amount you want to lend per line of stock?
 - d. If considering an "exclusive" arrangement with a single borrower, how have you assessed any additional risks involved?
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7. COLLATERAL

- a. How have you determined what collateral will be acceptable for each portfolio being lent?
 - b. Is this collateral consistent with your SIP/investment objectives?
 - c. Do you know what will happen to the collateral in the event of a default?
 - d. If you take cash as collateral have you ensured that you understand the process for its reinvestment, and any additional investment risks?
 - e. How often will the collateral be priced versus the pricing frequency of the rest of your assets?
 - f. Will you receive more collateral than the amount on loan, and are you satisfied with the proposed margins?
 - g. Is the collateral held in a segregated portfolio or a pooling arrangement?
 - h. How and where is the collateral secured?
 - i. How have you assessed whether to match collateral asset type and / or currency with the asset being lent?
 - j. How have you evaluated the diversification of the collateral?
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8. CORPORATE GOVERNANCE AND VOTING

- a. If required can you recall lent securities to allow voting?
 - b. What are the timelines if you need to recall a loaned security in each market that you lend in?
 - c. How and when did you inform your lending agent of your policy on voting?
 - d. Do you understand the potential impact of voting on the lending programme?
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9. CORPORATE ACTIONS

- a. How will you be alerted to corporate actions on securities lent?
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10. FEES

- a. Do you understand the level of fees you can expect to earn per asset class?
 - b. How have you assessed the level of rewards you are expecting versus the level of risk you are taking?
 - c. Do you understand how the lending agent will receive their fees for managing the lending programme?
 - d. Have you been shown the impact on fees of changing the level of risk within the lending programme, and how have you determined what risk is acceptable?
 - e. Is the income you are receiving what you are expecting or have been led to expect? If it has changed do you understand the reasons for the change?
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11. TRAINING

- a. Which of the previous questions flag the need for further research?
- b. Are you aware where to find further information?
(see suggestions below)
- c. Who do you need to provide securities lending training to within your organisation?
- d. What topics should the training cover, in what level of detail, and in what format should it be delivered?
- e. What training should be undertaken pre-decision and what ongoing training should you either receive or provide?
- f. In-house or external training? What tools and/or publications are already available to aid you undertake the training?

USEFUL REFERENCES

Documents that accompany this paper:

Securities Lending Introductory Guide
Agent Lender Disclosure Code
www.bankofengland.co.uk/markets/gilts/slrc.htm

Further Reading:

Securities Borrowing and Lending Code of Guidance
www.bankofengland.co.uk/markets/gilts/stockborrowing.pdf
Introduction to Securities Lending
Securities Lending: Your Questions Answered
Securities Lending and Short Selling
Securities Lending and Corporate Governance
www.isla.co.uk/dynamic.aspx?id=62
Global Master Securities Lending Agreement (GMSLA 2010)
[www.isla.co.uk/uploadedFiles/Member_Area/General_Library/GMSLA%202010%20Final\(1\).pdf](http://www.isla.co.uk/uploadedFiles/Member_Area/General_Library/GMSLA%202010%20Final(1).pdf)
FSA Conduct of Business Sourcebook
<http://fsahandbook.info/FSA/html/handbook/COBS>

Relevant websites:

Securities Lending and Repo Committee
www.bankofengland.co.uk/markets/gilts/slrc.htm
Financial Services Authority
www.fsa.gov.uk
HM Treasury
www.hm-treasury.gov.uk
The Pensions Regulator
www.thepensionsregulator.gov.uk
Association of British Insurers
www.abi.org.uk
British Bankers Association
www.bba.org.uk
ICMA European Repo Council
www.icmagroup.org/about1/international1/european.aspx
International Securities Lending Association
www.isla.co.uk
Investment Management Association
www.investmentuk.org.uk
Local Authority Pension Fund Forum
www.lapfforum.org
National Association of Pension Funds
www.napf.co.uk
Thomas Murray
www.thomasmurray.com

Glossary of relevant terms:

A full glossary of terms used in securities lending can be found in the SLRC Code of Guidance.
www.bankofengland.co.uk/markets/gilts/stockborrowing.pdf