

ISLA
Best Practice for
Operational Processes
for Securities Lending
Transactions

FOREWORD

As a trade association representing the common interests of market participants, it is our responsibility to set guidelines and standards for member firms to establish best practice codes that provide stability and a high level of operational efficiencies, that maintain the robustness of the market.

The Oxford English Dictionary defines best practices as Commercial or professional procedures that are accepted or prescribed as being correct or most effective.

Under the direction and guidance of both the FCA and the Bank of England's UK Money Markets Code, we at ISLA, have worked collectively to produce what we now consider an industry standard document that provides a defined roadmap on how member organisations should conduct their securities lending activities.

As chair of the ISLA Executive Operations Committee, I would like to extend my thanks to the numerous member firms which have contributed to the production of this paper, and the many more who have reviewed, edited and provided feedback through-out the process.

ISLA recognises that standardised processes are critical to the future stability of the securities lending market and with a unified membership approach, the market will be better placed to embrace both innovation and regulatory enforced change. It also enables us to assure regulators that we as an industry can achieve and maintain a robust, sustainable market place for our business.

Jonathan Lombardo, Chairman of the ISLA Executive Operations Committee

ISLA Best Practice for Operational Processes for Securities Lending

DATE OF LAST REVIEW

September 4, 2017

DESCRIPTION / BACKGROUND

This paper is intended to provide a practical and standardised approach to the operational processes of securities lending activity undertaken under the ISLA produced Global Master Securities Lending Agreement (GMSLA).

The paper is intended to be read and applied in conjunction with the Bank of England's UK Money Markets Code which was published on 26 April 2017.

The code is designed to be high level principles of conduct whilst this paper is intended to provide a day to day guide to processes and procedures.

It is intended to assist the market in the adoption of a clear set of practices that treat all parties to the transactions in a fair and equitable manner, whilst providing clarity in managing disputes and disagreements.

If there is a conflict between this document and the legal agreement (GMSLA) then the GMSLA shall prevail.

DISCLAIMER

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The Paper will be updated from time to time to reflect changes in the market in response to economic, monetary, financial, business, regulatory, legal and technological developments. The latest version of the Paper is posted on the ISLA website (for members only). ISLA will publicise updates but readers should periodically check the ISLA website to ensure that they are using the latest version of the Paper.

Questions on the Paper, as well as proposals for change or improvement, should be addressed to the ISLA team at their offices: 4 Lombard Street, London, EC3V 9AA T: +44 207 933 8683 E: admin@isla.co.uk

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1. GENERAL

I. PRECEDENT OF LEGAL AGREEMENT (DISCLAIMER)

This paper does not override any contractual arrangements agreed between parties but instead outlines practical operational guidance for market participants during the course of their day-to-day collateral operations.

This paper is intended to be read in conjunction with the Global Master Securities Lending Agreement (GMSLA: the master agreement) or equivalent agreement.

In the event of a conflict between this paper and the master agreement, the master agreement should prevail.

II. GENERAL STANDARDS

This paper is intended to provide a practical guide to managing the operational procedures of securities lending activity transacted using the GMSLA, and covers both lender and borrower counterparties.

It should be noted that some parties may need to adapt the proposed practical processes described in this paper because of system restrictions or other inhibitors. In this situation, this should be agreed bilaterally between parties and where possible documented between parties.

III. CONDUCT

The Bank of England's UK Money Market Code is a voluntary code, setting out expectations of conduct and provides high level principles for the conduct of parties involved in securities lending.

If a conflict exists between this document and the code, the code should prevail.

However, this document is intended to enhance the application of the code by providing clear and detailed operation procedures and processes.

It is recognised that some aspects of this paper remain at the time of publication aspirational for the market and therefore not common practice. In order to promote a standardised approach, parties to the GMSLA are encouraged to develop capabilities to meet the standards wherever possible. In these circumstances, counterparties should ensure they remain compliant with the Code.

IV. ARBITRATION

In the event of a dispute between parties, the Operation Executive committee will act as a reference point in relation to this paper.

The Operations Executive committee is made up of senior representatives from the securities lending participants and reports directly to the duly elected ISLA Executive committee.

2. INITIAL OPERATIONAL SET-UP

I. STANDARD SETTLEMENT INSTRUCTIONS (SSI'S)

STORAGE

Where possible all standard settlement instructions should be maintained and exchanged via an SSI repository.

Where the use of a repository is not possible, standard settlement instructions should be stored and maintained locally.

Standard settlement instructions should be stored at entity/fund level for each market.

NEW FUNDS/ENTITIES

Standard settlement instructions should be provided at the set-up stage of any new business. Authentication and call back procedures should be performed prior to any new activity and within a reasonable time of receipt.

Confirmation that all standard settlement instructions have been set up should be provided prior to any new activity.

CHANGES TO EXISTING SSIs

All parties should give at least 5 business days' notice of any change in standard settlement instructions.

Where email notification is required, the email should provide a clear summary of the changes.

Authentication and call back procedures should be performed prior to the effective date.

All notified changes should be updated prior to or on the effective date by all parties.

AUTHENTICATION

Standard settlement instructions that are maintained in an SSI repository should be subject to dual controls by two individuals.

Where standard settlement instructions are retrieved from a repository these should be deemed to be authenticated and no call back required.

Standard settlement instructions that are received via email communication will be subject to the internal controls of each party.

Standard settlement instructions that are input or amended manually should be subject to dual controls by two individuals.

If possible, call backs should be performed with a different known individual to the individual that sent the SSIs.

All parties should work bilaterally to meet internal controls and requirements.

MAINTENANCE

All parties should reconcile standing settlement instructions no less than annually.

II. DISCLOSURES

Counterparties should ensure certain levels of operational information are discussed and shared before beginning to transact with each other.

The following represent a minimum requirement of information to be disclosed when beginning a new lender/borrower relationship.

There should be at least one initial meeting between operational groups prior to commencing the relationship. This may be in person or by telephone.

The following is not intended to be an exhaustive list of topics to be discussed and disclosed.

For further detail for the topics raised here, please refer to the specific sections of this paper.

Notice of any specific requirements before lending commences

- Use of vendor platforms
- Agreed return requirements / deadlines
- Mark to market rounding logic
- Borrower / lender loan settlement
- Corp actions requirements / deadlines
- Base currency for billing
- Base currency for collateral

Collateral Schedules and deadlines for agreement

- Non-cash bilateral profiles
 - a. Agreement deadlines
 - b. Substitution requirements
 - c. Collateral settlement location
- Tri party schedules
 - a. Agreement deadlines
- Cash currencies
 - a. Agreement deadlines
 - b. Payment deadlines per currencies

Vendors and capability

- Legal entities ID
- Technology / recon contacts for set up

Operational contact details

- Org chart and contacts

Escalation contacts per functions

- Settlement
- Collateral management
- Billing
- Reconciliations
- Corp actions income

It is recommended that formal review meetings should be arranged between the operational teams of counterparties at least annually.

3. PROCESSES FOR EQUITY AND FIXED INCOME LOANS

I. TRADE MATCHING AND CONFIRMATION

TRADE MATCHING

The process of trade matching is intended to ensure that transactions will not fail to settle once input into the security settlement system (SSS) at a CSD or ICSD because of mismatches between the instructions entered by or on behalf of counterparties.

It is not good practice for counterparties to rely on trade matching at the SSS for the verification of the terms of transactions, as this usually reduces the time to correct mistakes or resolve disagreements about the terms of transactions and allows an unexpected build-up of risk.

Once a transaction has been agreed counterparties should verify that they agree the terms of the transaction.

A post-trade, pre-settlement, process of verification should be performed promptly after the execution of a trade, which means as soon as possible after the trade is executed and prior to SSS.

All fields and Standard Settlement Instructions (SSI's) should be matched at the point of trade matching verification in order to mitigate the risk of a trade mismatching, or trades being set up with economic differences.

CONFIRMATION

Confirmation is the process of providing a complete record of the commercial terms of a transaction and settlement instructions to the other party.

The provision of a Confirmation allows the recipient to cross-check the sender's record of the terms of a transaction against the recipient's own records. Confirmations can also be used during the life of a transaction to verify changes.

Counterparties should clarify prior to undertaking any transactions if they intend to provide confirmations, in what timeframe, and any expectations they have in relation to confirmations, of the other counterparty.

If counterparties agree not to use confirmations, it is strongly encouraged that a robust Trade Matching and post-trade Contract Compare process is in place between the parties in order to mitigate risk.

II. SETTLEMENT DISCIPLINES

SYSTEM UPDATES FOR SETTLEMENT INFORMATION

Timing of settlement statuses will vary by market and by custodian/sub-custodian.

In the mature markets such as ESES (Euroclear settlement of Euronext-zone Securities) updated matching/settlement status' are often provided via Swift in less than 5 minutes. For emerging markets information can be much less frequent.

Sub-custodians will generally send settlement statuses via Swift in near real-time. Given the shorter settlement timeframes under T2S, and with the upcoming settlement timeframes under SFTR, this will be increasingly important.

It should be recognised that the process and timings of status updates is often dependent upon custodial network, so timings may vary between counterparties.

OPPOSING SETTLEMENT INFORMATION

A counterparty should not directly contact the custodial network of another counterparty. However, in more complex cases, it may be necessary to bring all parties together to resolve any disputes/unreconciled positions. This can only be done with both counterparties agreement.

In the event Counterparty A sees a trade unmatched/failing but Counterparty B sees it as matched/settled, then Counterparty B is responsible for providing the market reference for that matched/settled trade – typically sourced from their custodian network – to Counterparty A.

NOTIFYING A COUNTERPARTY RE AMENDED STATUS/VALUATIONS

There is no requirement to update trading the market that has been received from a custodian.

Where a counterparty cancels a loan or return, vendor platforms should be used to advise the counterparty. Where it is not possible to use a vendor platform, there is a requirement to notify the counterparty directly that a transaction has been cancelled.

Pre-matching and fails reporting between counterparties is recommended. Timing, frequency and responsibilities are to be agreed on a bilateral basis.

BEST EFFORT TIMEFRAMES FOR SETTLEMENT

Transactions that will be uncollateralised need to be instructed by both counterparties 1 hour before the relevant market cut off.

Collateralised transactions need to be instructed by both counterparties 4 hours before the market cut-off to allow sufficient time to agree collateral and release the borrow.

Returns should be agreed on a matching platform whenever possible. Otherwise, settlement instructions should be in place 1 hour prior to market cut off.

Returns and Recalls manually notified should be instructed for settlement up to an hour prior to market cut off. For more detail on this please see section 3 (v) Returns and Recalls.

Back dated trades may only be processed if permitted by each counterparty's internal policies and are agreed bilaterally. Due to the additional approval requirements for back dated trades, and potential for manual intervention, notification times should be agreed bilaterally between parties.

PARTIAL DELIVERIES

Partial deliveries should be matched and agreed on a vendor platform prior to being instructed for settlement in the market. T2S enables auto-partialling of returns but this capability can only be used if both counterparties have subscribed to this functionality. Otherwise, partial bookings will be settled on a best efforts basis.

If returns are matched but the delivering counterparty is short the position, the recipient should agree to accept partial returns. For recalls the delivering recipient will always offer a partial settlement on value date.

III. LOAN PRICING (INCLUDING PRICING SOURCES)

PRICING SOURCES

Whilst recognising each firm's right to use multiple sources to create a single blended price feed, Bloomberg should be used as the final arbitrating source in any resultant pricing or FX dispute unless otherwise agreed between counterparties.

Wherever possible the following prices should be taken:

ASSET PRICES

UK/Europe/US - Prior days close of business price.

Asia Pacific – closing price from the same day. Any collateral deadlines prior to 12.00 UKT, the counterparties can agree on a peer-to-peer basis the price to be used, most typically the prior day's closing price.

In the event of a dispute, the final arbitrating price for asset prices should be taken from the BGN quote for that asset on Bloomberg.

In case of corporate action events (like Stock Split, Reverse Split) trade should be marked at last available price prior to the split between ex-date and pay date in order to reflect true value of the trade.

Fixed Income Bonds: Bloomberg pricing to be used with prior day's closing price.

Thailand pricing: Offshore/Onshore pricing to be used based on the domicile of the security.

For Japan, domestic market: Brokers – Price to be sourced from Jasdec vs Trust bank to use Nikkei price.

FX

In the event of a dispute around spot FX rates, the rate should be obtained using the default BGN. Bloomberg FX Generic source, and should be using the number of decimal places displayed on the screen (which is 5 characters, e.g. 12.345 or 1.2345).

Between any American or European currencies – Close of business previous day.

Between any American or European currencies and Asia Pacific currencies – Close of business previous day.

Between any Asia Pacific currencies – Close of business same day.

Where appropriate prices should be rounded UP to the nearest cent.

For UK assets, both bonds and equities, the CREST closing prices will supersede all other price sources including Bloomberg and Reuters.

IV. MARK TO MARKET DISCIPLINES

Loans should be re-priced everyday and submitted to the borrowing counterparty.

Bloomberg should be used as the final arbitrating source in any resultant pricing or FX dispute unless otherwise agreed between the parties.

MARK TO MARKET COLLATERAL MATCHING

Matching required collateral to cover a loan should be done via an automated reconciliation platform. All existing and new counterparties are encouraged to use such a platform.

Where automated mark to market matching is not possible, the counterparties will be required to match via the sharing of files. The minimum amount of information that should be provided is;

- Security name
- Security identifier
- Prior price and collateral value
- New price collateral value
- Amount due (i.e. difference between current price and value and new collateral price and value)

If required by the borrowing party, the lender must be able to provide additional details such as the below;

- Report date
- Currency
- Payment method
- Fund
- Loan ID
- DVP/FOP marker
- Security currency
- Number of shares/bonds
- Margin requirement
- New FX rate
- Payment instructions

Rounding of collateral should be done in accordance with the legal documents exchanged between the two counterparties.

In the event of illiquid securities, discrepancies should be escalated for resolution according to each parties' internal procedures and pricing policies.

V. RETURNS AND RECALLS

NOTIFICATION OF RETURNS

As with all processes, returns should be issued via automated platforms, and accepted/rejected within a reasonable time period intraday and up until close of business.

Returns should be processed on a settlement cycle agreed by both counterparties, but a minimum of T+1 settlement cycle to maximise matching and settlement rates.

Returns booked for same day settlement should be processed on a best-efforts basis.

As with all processes, returns should be issued via automated platforms where possible, and accepted/rejected within a reasonable time period intraday and up until close of business. Returns should be issued to the bilaterally-agreed party at least 30 minutes before the market cut-off for the market where the return is issued via an automated platform, and 60 minutes before the market cut-off where the return is issued manually.

Returns may only be rejected with a reasonable explanation, such as a corporate entitlement events or evidence of a term agreements.

FAILING RETURNS

Cancellations should be notified to the bilaterally-agreed party.

Where a return is not a recall and has been unmatched for 3 days or matched and failing due to insufficient stock for 5 days, the counterparties may bilaterally agree to take further action.

SPECIFIC REQUIREMENTS FOR RETURNS

Where there are specific requirements in place to process/book/accept returns, these requirements should be bilaterally agreed and documented between the market participants prior to trade booking and implementation.

It is recommended that counterparties ensure there are no reconciliation or contract differences on a position prior to a return being booked on settled. Booking and settling returns on a position that is not fully reconciled and agreed by both market participants is likely to create further processing issues at a later stage in the trade life-cycle – for example billing.

ISSUANCE OF RECALLS

Recalls should be issued either via an agreed communication method the bilaterally-agreed party prior to 60 minutes before the market where the recall is to settle closes.

All recalls should be issued in line with standard settlement cycles.

Recalls should be acknowledged within 3 hours or by 17:00 London time, whichever is soonest for market participants located in EMEA.

Gilts: Notification of an intent to recall a Gilt from loan should be sent (and acknowledged by the recipient)

by 10:00 London time, on settlement date.

UST's: Notification of an intent to recall a UST from loan should be sent (and acknowledged by the recipient) by 15:00 London time on settlement date.

RECALLS OUTSIDE OF MARKET CYCLES

If any recall needs to be issued outside market cycles then the counterparty recalling should verbally instruct the recall recipient, and subsequently provide confirmation via agreed communication method.

The recipient of the recall should take 'best or reasonable efforts' to settle the recall in the required timeframe. This means that the recall recipient should utilise every reasonable option to return the stock earlier than the relevant market settlement cycle.

Where a counterparty has received a buy-in notification due to a failing recall, the counterparty should make every effort to ensure that the failing counterparty is aware of the buy-in issuance at the earliest opportunity.

CLAIMS AS A RESULT OF PENALTIES AND FINES

Recalling counterparties should endeavour to partially settle sales wherever possible, and therefore should accept partial returns or recalls.

Recall recipients will only be liable for 'sale fail' costs for the portion of the sale where they have failed to return stock in the required timeframe.

Partial settlement can be requested within market deadlines following receipt of shares or notification that the recall recipient is insufficient to deliver.

Counterparties should seek to issue claims within 30 days but within a maximum of 60 days of the settlement of the sale.

The recommended minimum claim is 500 USD or equivalent, or as bilaterally agreed between counterparties. The claim recipient must endeavour to pay the claim within the same time frames of 30 days where possible but within a maximum of 60 days.

Claim issuer should provide the following information on claims:

- Date, time and the name of the borrower contact to whom the recall was issued
- Trade and settlement date of recall
- Actual settlement date of recall
- Security ID and description
- Quantity recalled
- Cash amount of recall (based on sale price)
- Claim calculation (i.e. cash amount of recall*interest rate*days of fail/100/360 or 366 depending on market)
- Reason for claim
- Payment instructions

VI. LATE / FAILED SETTLEMENT CLAIM PROCESS

CLAIMS AS A RESULT OF PENALTIES AND FINES

Counterparties should endeavour to settle partial sales of stock wherever possible, and thereby should accept partial returns or recalls.

Counterparties will only be liable for 'sale fail' costs for the portion of the sale that fails due to an outstanding loan position which has been recalled and not delivered in the required timeframe. This is because partial settlements can be requested within market deadlines following receipt of shares and/or notification that the borrower is insufficient to deliver.

It should be noted that in some markets, additional charges may be incurred for late settlements, such as TMPG in the USA. Where these charges are incurred due to a failing recall, the failing party is liable.

Equally if overdrafts are incurred the injured party may consider making claim for any costs from the failing party.

CLAIM ISSUANCE AND SETTLEMENT

Counterparties should aim to issue claims within 30 days but within a maximum of 60 days of the settlement of the sale.

The recommended minimum claim is 500 USD or equivalent, or as bilaterally agreed (prior to activity). The receiving party must endeavour to pay the claim within the same time frames of 30 days where possible and within a maximum of 60 days.

The claim issuer should provide the following information on claims:

- Date, time and the name of the borrower contact to whom the recall was issued
- Trade and settlement date of recall
- Actual settlement date of recall
- Security ID and description
- Quantity recalled
- Cash amount of recall (based on sale price)
- Claim calculation (i.e. cash amount of recall*interest rate*days of fail/100/360 or 365 depending on market)
- Reason for claim
- Payment instructions

Claims should be sent via e-mail with as an attached PDF that is signed. The recipient should acknowledge receipt within 24 hours via return of e-mail.

VII. CORPORATE EVENT MANAGEMENT

The lifecycle of a corporate action will need specific controls in place at each stage depending on the event type. This section provides a basic overview of best practice that should be considered when processing corporate actions for lent positions

The purpose of managing corporate entitlements is to ensure the beneficial owner received all shareholder rights as they would if no SFT had taken place (and assets were in a custody account).

For the purposes of this section:

Recipient counterparty is the counterparty receiving the entitlement due to and outstanding loan or collateral transaction.

Beneficial counterparty is the counterparty (or agent of counterparty) who is would have received the entitlement if a loan or collateral position was not outstanding. This is the party who is contractually entitled to receive the entitlement.

Corporate event management should include a robust use of contract compare and automated processing to ensure positions are actively reconciled and to assist with efficient processing.

MANDATORY CORPORATE ACTION EVENTS

EVENT ANNOUNCEMENT – PRELIMINARY CHECKS

Event details may be received from various vendor sources.

As these events cover capital structures that must take place, emphasis should be placed on preliminary checks to ensure there are no restrictions / terms that would require the recall of the loan position before the entitlement date.

Counterparties should ensure they are aware of any specific market nuances or laws that may impact the Corporate event management.

Key dates should be reviewed and monitored for Ex-1 or Ex, depending on the market.

Positions should be fully reconciled between parties prior to record date.

If any difference is identified in the information the identifying counterparty should raise it with their counterparty immediately.

ACTIONS TO TAKE DURING TIMELINE OF THE EVENT

On Ex-1, CA teams at both counterparties should notify collateral teams of the event to ensure price adjustments in the market do not prompt incorrect returns of collateral.

Restrictions may be placed on the asset from Ex to pay date depending on the event type.

Both counterparties should record the new entitlements on systems on record date plus one without delay. Depending on the event, original (parent) loans may be required to be bilaterally closed.

If pay date is after books closed date; new entitlement shares should remain as a pending settlement on record date plus one until pay date.

The beneficial owner will send the recipient counterparty a notification when the new entitlements have been settled.

Both counterparties should notify their collateral teams when closing and creating new positions from the corporate action. Please refer to the separate collateral paper for further details.

Fractional positions; in most markets it is best practice for both the lender and borrower to round down

when calculating entitlement positions. New share entitlements should be calculated on the whole lent position (per MDR), rather than per loan. Fractional cash should be paid based on the market price for the whole share. If the fractional payment is of minimal value, the lender and borrower can agree to write off this payment.

In markets such as Korea, where loans are tracked, segregated and fractions accounted for, entitlements should be rounded down per specific loan and fractional cash claimed and paid for per transaction.

Contract Compare should be checked on pay date plus one to ensure new loan positions are booked and match. Any differences need to be escalated to borrowers in order to match. Any cash and stock breaks are narrated as per regulatory industry requirements.

CASH ENTITLEMENTS

The beneficial counterparty is contractually due payment in full on pay date. If payment is not received, counterparties should raise a query on pay date + 1 .

If payments are not made on pay date, recipient counterparty should provide a valid reason for non-

In addition to reviewing Contract Compare prior to and on pay date, Contract Compare should be checked on pay date plus one to ensure newly created positions are reconciled. Any differences need to be escalated to counterparties immediately. Any cash and stock breaks are narrated as per regulatory requirements.

VOLUNTARY CORPORATE ACTION EVENTS

EVENT ANNOUNCEMENT - PRELIMINARY CHECKS

Both counterparties should review key dates and check current and pending positions including any pending returns.

A pre-advice received should be sent from recipient counterparty to beneficial counterparty on books closed date plus one which should include positions, options and deadlines.

If any differences are identified, these should be raised with the counterparty immediately.

Counterparties should check any potential risks in processing the event on loan. For example, restrictions on oversubscribing, scale back ratios which can leave entitlement differences with loan and custody positions, events where market movements are not allowed between record date and instruction deadline.

Once risks are identified prompt action to mitigate those risks should be taken. Short notice recalls may be required and system restrictions placed to prevent movement on the security.

Any restrictions/issues should be communicated as soon as possible to counterparties in order to highlight any risks or concerns.

It may be possible for the recipient counterparty to manufacture entitlements in order to maintain the loan position.

Alternatively, the loan should be promptly recalled and returned if record date has not passed.

The beneficial owner counterparty should diarise to send pre-advice to counterparties on the event to agree deadlines.

This notification should include all relevant information - positions and instruction deadlines (where applicable) along with options available on the event, highlighting the default option.

Pre-advice should be sent to counterparties within a reasonable timeframe of the event, allowing all parties sufficient time to agree terms and where applicable return stock if agreement cannot be reached.

ACTIONS TO TAKE DURING EVENT TIMELINE

If record/entitlement date is on / after instruction deadline, the outstanding positions need to be monitored daily until record date plus one.

If the position and deadline has previously been agreed but there is a change to the reconciled position such as a loan or return settlement then both parties will need to re-agree the new position as soon as possible.

Any pending movements need to be checked for settlement dates to ensure there are no issues with settlement after deadline/being returned after instructions have been sent.

If event details and entitlements cannot be agreed by both counterparties, then the position shall be recalled and returned prior to record date.

Firms may identify events as high or low risk depending on internal procedures.

Restrictions for low risk events may be added on the morning of the event deadline by the beneficial counterparty to prevent further movement until pay date/record date+1. This will ensure outstanding positions are final as per agreement between counterparties and will ensure instructions match the positions accordingly.

Restrictions for high risk event may be added on an announcement of an event and for a longer period.

The deadline should be reasonable in relation to the market deadline.

In some cases, the beneficial counterparty may need to negotiate with recipient counterparties for an extension to the agreed deadline if instructions are not complete.

Instructions are uploaded and checked by the beneficial counterparty before being sent to recipient counterparty via secure email in a pre-determined format as agreed between counterparties, and which may be described in an SLA. Instructions should be signed by two recognised signatories.

Recipient counterparties should confirm receipt of all instructions received from the beneficial counterparty by email. If an email confirmation is not received then a phone call will be made to the recipient counterparty to ensure the instruction is received.

Some elections are time sensitive (sale instructions, FCFS offer elections). Recipient counterparty should confirm receipt of the election via email as soon as possible after receipt and before close of business on the same day. It is essential that recipient counterparties include contact details on email correspondence when agreeing deadlines so the beneficial counterparty can reach the relevant person handling an event if necessary. No returns should be made by the recipient counterparty after receipt of instructions unless communicated and agreed directly with the beneficial counterparty.

ACTIONS TO TAKE BEFORE PAY DATE:

If entitlement ratios / cash rates are known before the response deadline, the beneficial counterparty will include the cash and/or stock entitlements on the instruction sent.

When confirming receipt of elections, the recipient counterparty should also confirm whether or not they agree with the entitlement.

If the entitlement ratio is not announced until PD or a couple of days before, the recipient counterparty should send an email to the beneficial counterparty confirming the entitlement to be recorded.

The beneficial counterparty should check and confirm agreement. Any discrepancies should be raised immediately.

Payment details should be provided to recipient counterparty either manually or on automated claims on PD-2, to ensure payment can be made promptly on pay date.

For events with WHT (such as French OSDRs) or subscription costs (rights issues and open offers) the beneficial counterparty will send claims to the recipient counterparty requesting account SSI's and seeking agreement on the cash amount on PD-2, so payment can be received by the recipient counterparty on PD.

All mandatory entitlement events, cash and stock entitlements should be agreed by pay date-2 where possible.

ACTIONS TO TAKE ON AND AFTER PAY DATE:

Lending agents are obligated to ensure underlying beneficial owners receive all entitlements, as if the securities were held in custody and not party to lending activity.

Loan positions should be treated as a whole position unless booked at different manufactured dividend rates.

In instances where scale back ratios are applied at beneficial owner level, the beneficial counterparty must provide the recipient counterparty with a breakdown of underlying client positions when sending instructions on the event.

On pay date any new entitlements should be reflected on the recipient counterparty's internal system and details sent to collateral teams.

Collateral valuations should include any new transactions recorded, or old loans closed.

When recording or closing a loan, the CA team at both counterparties should notify their collateral team of the action taken; detailing the security, loan ref, number of shares and the CA contact they have agreed this with at their counterpart.

This communication should help ensure a smooth and effective collateral flow.

New loans are booked and suppressed by the beneficial counterparty as the new loan will be a creation of additional entitlements and will not require physical delivery of securities.

The recipient counterparty should reflect the same increase on their side. If loans are being closed (rights loans or coupon loans on pay date) then this is done on pay date and collateral returned to the counterparty.

This would happen even if the new entitlement is not available until a later date. In some cases, such as exchanges or splits, the collateral can be carried over to the new loans booked. This should be communicated

to the collateral teams when the CA teams record the new loans.

Payment should be received on pay date, please refer to the collateral paper for further details.

The beneficial counterparty records all non-tradable lines attached to corporate actions, such as dividend coupons, non-tradable referred lines. The loans are booked at rates and prices agreed between parties.

Pay date +1 and onwards. The beneficial counterparty should check for cash payments due by monitoring the relevant currency accounts daily.

Recipient counterparties should email the beneficial counterparty to confirm value date on payments made.

The beneficial counterparty should respond, confirming receipt of funds once payment has been received.

The beneficial counterparty will make any payments to recipient counterparties on pay date and confirm value date via email, to ensure funds are recognised and not returned.

Contract compare should also be checked to ensure new loan positions are booked and match. Any differences need to be escalated to recipient counterparties in order to match.

The beneficial counterparty is contractually due payment in full on pay date. Therefore, chasing for payments should be done from pay date + 1 onwards.

If payments are not made on pay date, recipient counterparties should provide a valid reason for non-payment and an expected pay date so any cash or stock exceptions can be narrated as per regulatory industry requirements.

VIII. REDEMPTIONS AND COUPON MANAGEMENT

Prior to a Redemption event on a position both counterparties should seek, where possible, to return and close out or swap the position to avoid having the asset out on loan over the redemption date.

If a position is outstanding on the redemption date and confirmation from the agent of the redemption, proceeds of this should be agreed between counterparties and paid on the pay date of the event.

Where applicable and if agreed between both counterparties the redemption proceeds can be netted with any cash collateral that has been exchanged on the position previously.

As with redemptions, coupon payments on confirmation of the event, should be paid on pay date of the event.

IX. RECONCILIATIONS & CONTRACT COMPARE

ISLA continues to support the use of automated vendor solutions as best practice for reconciliations and contract compare.

Best practice for all reconciliations and contract comparing is to use one of these automated market vendors. Contract Compare is a functionality which allows on-line reconciliation of outstanding contracts via external market vendors. These comparisons can be performed against all aspects of the underlying loan details. Comparing these records between counterparties and improves reconciliation rates and reduces the

downstream implications of any un-reconciled trade/breaks for counterparties involved.

Vendor solutions are also available for a number of other post settlement reconciliations.

FILE TYPES

Files provided to automated vendors, offering the counterparty who has signed up to the vendor a similar standard of reconciliation and contract compare product.

FILE CONTENT AND FREQUENCY

Files should be sent to the market vendor at least once a day by both counterparties.

Where vendors offer more frequent reconciliation capabilities, counterparties may choose to match trades on a more frequent basis

These files should contain all details of underlying loans in order to facilitate complete Compare. This comparison can be performed on all aspects of the underlying loan contract.

The minimum amount of fields that should be compared are:

- Security name
- Security identifier
- MIR (Manufactured Income Rate)
- Nominal
- Value
- Fee/Rate
- Trade dates
- Collateral type
- Collateral currency

Further fields can be compared if bilaterally agreed with counterparties.

X. BILLING STATEMENTS AND PROCESSES

ISLA continues to support the use of automated vendor solutions as best practice for billing delivery and reconciliation. Best practice for producing billing statements is to use one of these automated vendors

Market participants can source the billing statements directly from the vendor platform at any given point of time.

This will facilitate more automated reconciliation and easier manual annotation and review by operations staff.

If counterparties are unable to utilise a vendor they should bilaterally agree on a suitable process and procedure with the Lender.

FILE TYPES

Files will be able to feed into one-sided billing reconciliations offered by automated vendors, offering the

party who has signed up to the vendor a similar standard of billing reconciliation product that they receive in a fully automated billing comparison.

Bills can if required, be exported from the Vendor in a format of choice – Excel, PDF.

FILE CONTENT

Market vendors are able to provide standardised file formats.

If agreed on a bilateral basis the Lender would need to include the following in their Bill:

Loan Reference:

- Asset Id/ISIN
- Asset name
- Trade ref
- Collateral type
- Start date
- End date
- Days accrued
- Quantity
- Price
- Rate
- Accrual
- Currency

BILL ISSUANCE

Final bills should be issued within the first 7 business days of the month.

Identification of disputes must be completed within the following 7 business days (14th business day of the month).

On bill agreement funds should be received and the bill closed out within 24 hours.

At the end of the first 14 business days any undisputed items should be paid.

DISCREPANCY RECONCILIATION

If after bill issuance there is a dispute, the billing teams will liaise with the relevant area for resolution and timely bill agreement.

4. COLLATERAL

I. COLLATERAL MARGIN / HAIRCUT DEFINITIONS & CALCULATIONS

A HAIRCUT should be applied where securities are used as collateral and this haircut is applied to the non-cash collateral, reducing the value by the amount of the haircut.

A Margin should be used when cash collateral is used to collateralise the loan. In this case, the loan is increased in value by the amount of the margin.

A MARGIN or Haircut should be based on the calculated risk of loss. The higher the risk to the lending client, the higher the margin/haircut applied.

The margin/haircut applied will be based on the criteria outlined by the client when joining the program.

This will typically depend on the credit rating of the collateral pledged compared to the rating of the securities being loaned to the broker.

CALCULATION OF MARGIN:

The calculation of exposure should follow the below formula:

Exposure:

$((\text{Quantity of Loan} * \text{Security Price of Loan}) * \text{Margin\% if applicable}) * \text{FX Rate}$

Minus

Collateral:

$((\text{Quantity of Collateral} * \text{Security Price of Collateral}) * \text{Haircut\% if applicable}) * \text{FX Rate}$

MARGIN DEVIATIONS:

There is also the possibility of margins being re-agreed or altered in the below scenarios:

- I. In the event of large fluctuations in the market, due to broker default or market uncertainty, margins may be increased to protect the client from large market swings resulting in exposure.
- II. If a piece of collateral is pledged which has a stale price, it is common for the margin to be increased incrementally until an updated price is received. If a security is unpriced for an agreed period of time, the security is deemed ineligible.

BASEL III:

In line with Basel III, each entity must ensure there are sufficient resources allocated to collateral management to ensure there is an efficient margin call agreement and collateral settlement process.

All collateral processes and margining logic should be reviewed internally on an annual basis to ensure the current policy is reflective of the current market environment.

In the event of a collateral margin call dispute, both counterparties should have a contingency plan

documented and agreed common source of information (i.e. price or FX source) to allow the margin call to be agreed.

In the event that a counterparty is not sufficiently completing the above, resulting in delayed margin call agreement or even resulting in under-collateralisation, the counterparty may be penalised. I.e. increased pricing, increased margining or cease trading.

ISSUING MARGIN CALL:

A portfolio should be provided in the case of a margin call discrepancy and should include all the below details:

- Quantity of security
- Client
- Dirty Price of security
- Security ID
- Trade price
- Currency
- FX rate
- Haircut/Margin
- Loan or collateral indicator
- Accrued rebate
- Exposure including Haircut/Margin

A margin call should be issued in the currency (or one of the currencies) set out in the initial agreement.

Each counterparty should have the ability to agree a margin call via a Triparty agent or bilaterally, depending on the counterparty's agreed preference.

Contract Compare systems should be used to ensure exposure, price, quantity and margins are in line.

II. DAILY COLLATERAL PROCESS AND REQUIREMENTS

INITIAL COLLATERAL CALLS

The counterparties should notify initial daily collateral exposure requirements by 13.30 London time or such other time as agreed in the master lending agreement.

Subsequent changes to exposures valuations are generally caused by the transacting of new same day settlement loans or settlement of late returns, which have been excluded from initial calculations.

Both counterparties should address any such changes to exposure valuations as soon as is practicably possible

Counterparties should bilaterally agree loan and collateral values taking account of pending loans and returns, settled transactions and collateral values before agreeing any further collateral movement.

The legal agreement between parties may provide a timeframe for collateral management and unless otherwise agreed between counterparties, the following timeframes should be adhered to:

BILATERAL ARRANGEMENTS

Intraday collateral exposure agreement should be reached as soon as possible after pricing updates have been received and with final agreement by 16.30 London time. Ad-hoc or late agreement will be done on a best efforts basis.

BILATERAL COLLATERAL SUBSTITUTIONS

It is recommended that the counterparties agree collateral substitutions in accordance with their legal agreement and in as timely a manner as possible but no later than an hour before the market deadline.

Collateral delivered as a substitution for collateral being withdrawn must adhere to the agreed eligibility schedule and be of sufficient value.

TRIPARTY COLLATERAL ARRANGEMENTS

Where triparty collateral managers are used, it is recommended that both counterparties should first bilaterally agree the required collateral value (RQV) prior to submission of figures to the triparty agent.

Initial RQV agreement should be completed by 14:00 London time. Any subsequent RQV increases/decreases should be agreed bilaterally prior to submission to a triparty agent.

Final RQV agreement should be completed by 4.30pm (London time). Ad-hoc or late agreement will be done on a best efforts basis.

UK CREST DELIVERY BY VALUE (DBV)

Counterparties should agree required DBV collateral figures no later than 3.30pm (London time) and instruct the DBV in Crest no later than 3.45pm (London time).

It is recommended that both counterparties reconcile their open positions to Crest. If they are still unable to agree the DBV value, the exposure figure provided by Crest should be accepted and the DBV instructed no later than 15.45 London time.

In the event of the continuing discrepancy with the DBV values, both parties should perform a reconciliation of all open positions to those in Crest.

III. DAYLIGHT EXPOSURE / HOLD AND RELEASE

DAYLIGHT EXPOSURE DEFINITION:

Daylight exposure is defined as the period in the day when one party to a trade has a temporary credit exposure to the other, due to one side of the trade having settled before the other. The period extends from the point of settlement of the first trade to the time of settlement of the other.

STANDARD SECURITIES LENDING STRUCTURE:

If the counterparty is acting as an agent lender, a loan of securities is generally only released once eligible collateral to the same value (including margin) has been provided. A counterparty may release a loan which is under-collateralised if the exposure is within their agreed exposure threshold or if this is within their risk

parameters. This is known as the hold and release approach. Daylight exposure generally only impacts the collateral provider as a result.

MARKETS AND TIME ZONES

The specific market the collateral and loaned securities are settling in is a key factor in this. If the loan and collateral are in different markets and in different time zones, the period of time a counterparty may be exposed will increase. e.g. On a portfolio made up of Japanese collateral and US Loans, the Japanese Collateral would need to be pledged first thing in the morning to settle in the Japanese market, but the US Treasury loan could only be released when the US market opens later that day.

PREPAYS

Prepays are loans which are collateralised before value date. The reason this is done is:

- To facilitate the settlement of a loan in a market that is in a different time zone.

E.g. In some cases, a bank may not have the required presence in a particular time zone to facilitate the settlement of same day collateral. In this case, a prepay is the only solution in order to get the loan settled on value date.

OR

If the market has an early cut-off that would make collateralisation of the loan same day impossible.

E.g. If a trader in the UK books a trade to settle the following day in Japan, the trader may book this as a prepay loan to ensure the trade is collateralised and released that day. If this was not done, collateral would need to be called the next morning and settled in the market, before the Japan market closes that day. There would be a very short timeframe for getting collateral to cover the loan in time for settlement same day.

COMMON APPROACHES TO MANAGE DAYLIGHT EXPOSURE

If the counterparty is acting as lender, they will generally adopt a hold and release system. This means that the loan is only released when the relevant collateral is received. If hold and release is not used or if the counterparty is acting as borrower, the below approaches are generally used to reduce or remove daylight exposure.

USE OF A TRIPARTY AGENT:

If a Triparty agent is used it allows for securities to be pledged which are not possible via bilateral means. E.g. Japanese collateral can be pledged outside of Japanese market hours as long as the security is held in the collateral giver's long box at Triparty.

SHORTENED TURNAROUND TIME OF MARGIN CALLS:

In order to facilitate same day settlement, a timely margin call process needs to present to ensure the collateral and loan settle before market close. This can be achieved by the use of a triparty agent who can accommodate the collateralisation of loans in a very short period of time around the clock.

ALL BANKS HAVING GLOBAL COLLATERAL AND LOAN SETTLEMENT COVERAGE:

If a bank has a global presence in every time zone, there is a possibility the collateral can be received same day for all loans. This is dependent on the turnaround time of margin calls and also the securities which are being traded.

ALL TRADES BEING BOOKED VS CASH:

If a trade is booked as a DVP transaction (delivery of securities versus payment), the trade can be released immediately to the market, in the knowledge that the cash collateral will settle simultaneously with the loaned security.

IF A LOAN IS NOT COLLATERALISED:

If a loan is not collateralised, internal escalation procedures should be followed and the counterparty should be advised. The loan may be cancelled or re-agreed for a future date assuming this exposure falls outside the counterparty's risk and threshold parameters.

IV. COLLATERALISING CORPORATE ENTITLEMENTS

RIGHTS CREATED ON PAY DATE

Value of rights created on open positions should be included in the exposure calculation, using the standard pricing sources.

If rights are not tradable and have no value, they will be automatically excluded of the exposure calculation.

DIVIDENDS

Outstanding dividends should be included in exposure figures because they represent an exposure risk from market pay date until payment is made to the beneficial counterparty of the loan transaction.

If dividends are not paid on Pay Date, the beneficial counterparty retains the right to request collateral from the recipient counterparty if the exposure is deemed unacceptable.

If collateral is required, dividends should be included on Pay Date +4 (PD/PD+1 as the days to generate the claims & PD+2/+3; as the days to perform payments, reconciliations & matching).

During periods of high volume, flexibility should be expected as more time may be required to match all claims & process all the payments.

COUPONS

All coupons paid on lent positions should be paid on Pay Date as soon as the claim is received. If coupons are paid on Pay Date, no exposure is created.

The beneficial counterparty retains the right to request collate from Record Date.

In case coupons are not paid on Pay Date, they should be included in exposure to mitigate the risk.

REDEMPTION & MATURITY

Securities finance transaction redemption & maturity should only be closed in the Operations system once the cash is received from the counterparty.

Until proceeds have been received, the original transactions should remain open and included in exposure calculations.

Once the cash is received by the beneficial counterparty, original transactions can be closed and removed from exposure calculations.

V. AGREEMENT & RECONCILIATION OF TRIPARTY RQVS

In order to ensure that all initial figures are agreed within acceptable timeframes that allow for differences to be reconciled, 15:00 London time should be used as the standard benchmark unless otherwise bilaterally communicated.

Any internal deadlines should be clearly articulated & agreed bilaterally and where they are approaching with no agreement should be escalated.

Collateral valuations that are communicated to triparty agents should include all settled instructions, except where a pre-pay model has been agreed.

Pending returns are excluded until settlement has been confirmed.

Once an initial figure has been agreed, all counterparties should remain flexible up until the tri party agent deadlines to re-agree figures when necessary in order to account for same day activity, except if bilateral deadlines have been defined between the counterparties.

Both counterparties should communicate the agreed figure, including the currency within 30 minutes of being bilaterally agreed, as well as any subsequent amendments, to the triparty agent via email, or other method as agreed and counterparty notified, or via the collateral module of TPAs. Both counterparties should review the communications for any differences.

When the triparty has confirmation of the agreed figures from both counterparties they will collateralise accordingly. If there are still any differences at this stage they should be raised by the tri party agent to the parties.

DISCREPANCIES

In the event of a difference between figures, both counterparties are responsible for resolution and should be able to provide a breakdown of their calculation in order to isolate the root cause efficiently in the following format;

- Outstanding borrows/loans value
- Pre-pays value
- Pending returns value

Where required to resolve a difference, full breakdown of the above balances must be provided by counterparty

by trade, value and currency in a timely manner to allow a bilateral reconciliation before triparty agent's deadline.

If the discrepancy lies with a same day settlement (settlement status discrepancy), the counterparty that recognises the settlement should provide references to the counterparty that doesn't recognise settlement, so that they may follow up with their market agent and agree the valuations.

In the event of a pricing dispute, pricing sources should be aligned with section 3.ii of this paper.

COLLATERAL SCHEDULE AMENDMENT

Any change to collateral schedules, including margin, must be agreed internally at both counterparties and between counterparties before being formally communicated to the triparty agent, so that all new signed agreements are in place before operations update their procedures/systems accordingly.

New/Amended collateral schedule conditions will be considered as applicable only once triparty agent has completed the set up in their system (taking in consideration their own deadlines to perform the set up).

Collateral allocations applied by counterparties based on allocation files received from triparty agents should be communicated to counterparties by COB+1 once any file integration and fair allocation have completed. Allocation is applied at sub fund level to comply with the UCIT/AIFMD requirements in term of segregation.

VI. COLLATERAL FAILS MANAGEMENT

Collateral fails may occur due to wrong instructions or short positions either on (a) the commencement of the Loan, (b) in case of a substitution of Collateral or with regard to Margin Maintenance or (c) on the termination of the Loan.

In all cases, a failure to deliver or re-deliver of Collateral should not be considered as cover of exposure for the receiving party. Furthermore, overnight exposure should be avoided where possible.

ON THE COMMENCEMENT OF THE LOAN

One counterparty undertakes to deliver to, or deposit, collateral in order to cover a new loan no later than Close of Business on the Settlement Date.

If a collateral fail occurs intraday, alternative collateral should be provided in accordance with the standard market deadlines which depend on the type of Securities Collateral.

If market deadlines for securities collateral are already passed, Cash Collateral should be delivered in order to avoid an overnight exposure.

DURING THE TERM OF THE LOAN

Where any Equivalent Collateral is to be repaid or delivered, or further collateral is to be provided if the relevant demand is received by the notification time specified in the Schedule of the relevant master agreement, then the delivery shall be made not later than the close of business on the same business day.

If a demand is received after the Notification Time, then the relevant delivery shall be made still on the same business day on a best effort basis but in any case, not later than the close of business on the next business day.

On the termination of the Loan the Collateral should be no later than close of business on the value date of the Loan termination.

If the Collateral return fails, alternative collateral should be delivered to the Provider on the same business day.

A failure to deliver or re-deliver may be caused due to false or incorrect instructions.

In such a case, it shall be the first operational step to review the SSIs exchanged between counterparties.

In case the failure is due to such false instructions, the delivery of the Collateral should be reinstructed.

In case a failure to deliver or re-deliver Collateral is caused due to a lack of available Securities Collateral or Cash Collateral, the failing counterparty shall - depending on the applicable Collateral table - deliver Cash Collateral or alternative Securities Collateral.

In case of frequent Collateral fails, information should be escalated according to internal procedures and possible measures, such as reducing the exposure towards this counterparty, restructuring the trades, etc. shall be considered.

VII. COLLATERAL AGREEMENT AND DISCREPANCY RESOLUTION

It is the responsibility of both the counterparties to escalate unresolved disputes according to internal procedures.

Discrepancies between counterparties in [for example] loan and/or collateral valuations can result in a dispute about collateral requirements. In the event of a dispute, both counterparties should be able to produce intraday reporting in a timely manner providing a breakdown of relevant positions in order to resolve the disputed positions on the same day.

When identifying the causes of any discrepancies reconciliations should be considered for:

- i. Prepays, new same day loans, and settled returns
- ii. Position quantity & value
- iii. Haircut levels applied

Where the dispute results in the collateral receiver believing that more collateral is required and the dispute is not resolved by the end of the day, the collateral receiver may provide details of the loans/prepays it intends to cancel or withhold. In order to avoid this, the collateral; giver may decide to collateralise to the collateral receiver's requirements pending further investigations.

To aid the resolution of a collateral discrepancy, which may be due to a position miss-match, the use of third party vendors for contract compare is encouraged where possible. The use of automated contract compare systems can provide a proactive approach to managing position issues, which may have led to collateral valuation discrepancies.

5. GLOSSARY

AIFMD

Alternative Investment Funds Management Directive 2011/61/EU. This directive is aimed at reducing systemic risk and protecting investors.

Basel III

Basel III is the global regulatory framework for capital adequacy, stress testing and liquidity management applied to banks. Developed by the Basel Committee on Banking supervision the regime has been adopted into domestic regimes with some local differences. From an SFT perspective it impacts the capital levels banks must hold against financing transactions and applies a number of risk weightings and ratios to the business. As Basel III is not a regulation, G20 countries have agreed to adopt the framework into national law.

Collateral

Securities or cash provided by the borrower temporarily by the lender for the duration of the loan. Intended to restore the lenders position in the event of a counterparty default. Securities can be provided by legal ownership transfer (title transfer) of ownership or using a pledge agreement.

Collateral Substitution

When collateral has been previously delivered, and is still required but the collateral giver need to change the specific asset, a collateral substitution process is undertaken.

CSDR

The European Central Securities Depository Regulation EU/909/2014. This regulation is aimed at improving settlements in the EU.

Daylight Exposure

This is the potential exposure that can occur during the settlement process between loan and collateral settlements.

DVP

Delivery Versus Payment: this is where securities are delivered between parties versus a cash payment simultaneously and as one transaction.

ESES

Euroclear settlement of Euronext-zone Securities (all domestic securities in Belgium, France, Netherlands).

Exposure

This is the difference between loan value and collateral value including any haircut. It is the value that is uncollateralised at the point of calculation.

FOP

Free of Payment: this is when securities are delivered with no cash leg. Securities are legally transferred with no payment attached (generally used in SFT where non-cash collateral is utilised).

Haircut

This is the amount deducted from the value of collateral in order to compare with the 100% value of the loan.

Where loans are collateralised with a mix of collateral and each type of collateral attracts a different level of over collateralisation, each type of collateral is “haircut” by the required level. i.e. if a collateral receiver requires 5% more collateral than the loan value when accepting Government bonds and 10 % when accepting equity, each type of collateral is calculated at the reduced level (95% of value and 90% of value) in order to compare against the 100% value of the loans.

Loan Release

After loan transactions are agreed, market instructions require authorisation to instruct custodian to input a transaction into the market. This is normally a Swift instruction and can be delayed until collateral has been received or arrangements have been agreed.

Loan Value

This is the value of the outstanding loan based on the most recent mark to market and the value that fees are calculated from.

Margin

Margin is the value that may be added to the market value of loans to calculate the required collateral value. Often this is an initial additional collateral requirement that is used in conjunction with a haircut applied to the specific collateral type.

For example: Loan value + £100 plus 2% margin = £102. This is the value of collateral required after any specific haircut is applied.

Market Value

This is the current market value of lent securities based on the current market price. It can differ from the loan value if a mark to market has not been applied and is used for collateralisation purposes.

Market cut-off

This is the deadlines imposed by the market infrastructure. For example a payment system may only settle payments received before their published market cut off time.

Mark to Market

Mark to market is the process of applying current market prices to existing loans. The new price is then used to calculate fees payable.

Parent Loan

Where a lender agrees a loan and then allocates it to a number of beneficial owners. The original total is referred to as a parent loan even though legally each underlying beneficial owner enters into a separate transaction.

Partialling

This term is used when part of a transaction (loan) is settled but not fully. For example, if a borrower chooses to return part of a lent position (borrow 100, return 50) the return is said to be partialling.

Pledge

A pledge is used for collateral where title transfer is retained by the collateral giver but a security interest is provided to the party requiring collateral.

Prepays

The GMSLA states that collateral should be transferred simultaneously with the lent asset. However, a prepay occurs when a Borrower agrees to transfer collateral prior to receiving the asset being borrowed.

This may occur when (for example) loan and collateral assets are transferred in different time zones and ensures that the Lender is fully collateralised at the time the loan transaction is settled.

RQV

RQV is the market term for the value of collateral required (ie the total loan value to be collateralised) to cover exposures. Mostly used in the context of triparty collateral managers, a lender will provide an RQV to the triparty collateral manager.

Repo

A sale of a security with a contractual agreement (usually under the Global Master Repo Agreement) to re-purchase the security at an agreed price on an agreed future date.

Securities Lending

A temporary transfer of legal ownership between two parties in return for a fee.

SFTR

Securities Finance Transaction Regulation: Regulation (EU) No 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012. This regulation provides transparency by requiring securities lending activity to be reported to regulators in the EU.

Spot / Spot Value

This is a general market term which means two days forward.

Fixed Income prices are generally on a spot value basis. This means the price for transacting on a T+2 basis.

Stale Price

When a published price hasn't changed for a period of time, normally three days. This is an indication that there is not much activity in the secondary markets.

Title Transfer

This is the term used when securities are delivered and ownership is legally transferred to the other party.

UK Crest DBV

Delivery By Value: A specific transaction available in the UK Crest settlement system (Euroclear UK & Ireland) for collateralisation purposes.

UCITS

Undertakings for Collective Investments in Transferable Assets. These funds are commonly lent and subject to specific regulation. In Europe, these regulations are specifically referred to as the UCITS V Directive (2014/91/EU).

UK Gilt

A fixed income instrument issued by the UK Government.

UST

A fixed income asset issued by the United States Treasury and/or subsidiaries.

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