



How to Establish a Securities Lending Program

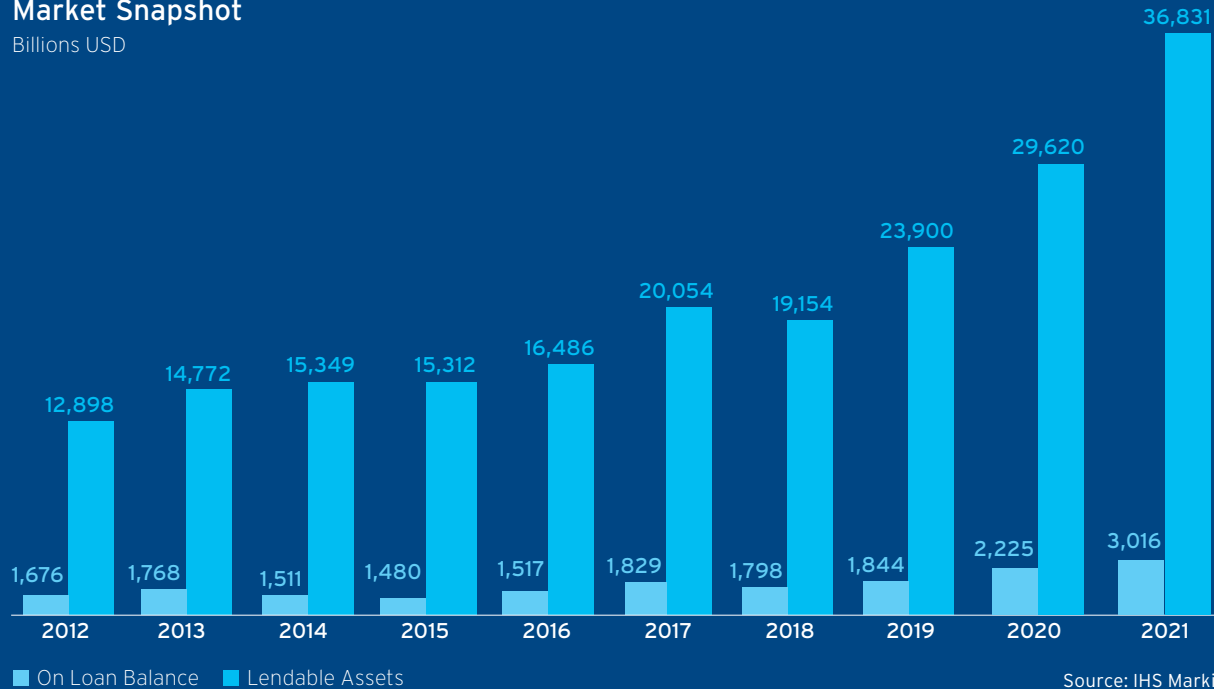
Securities Services



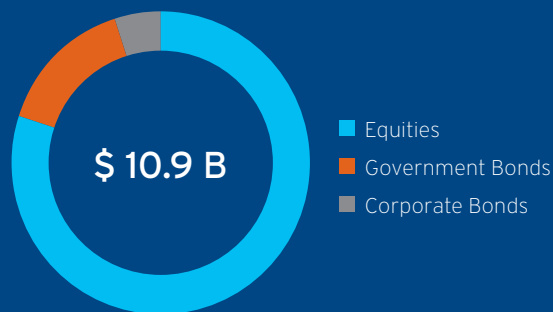
Global Securities Lending Market at a Glance

Market Snapshot

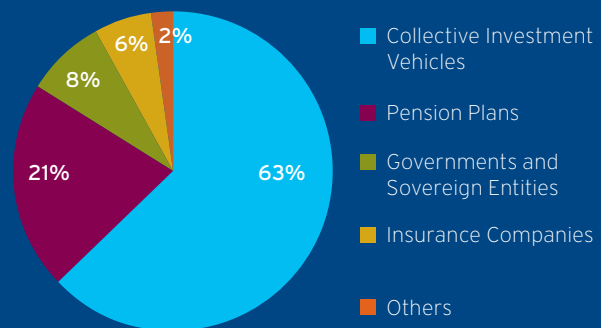
Billions USD



Global Securities Lending Revenue



Market Participation by Institution Type



Source: IHS Markit (As of 31 December 2021)

So you want to establish a securities lending program?

With over \$35 trillion in lendable assets globally, the securities lending market is at near historic highs. As firms' profit margins are being squeezed by changing customer preferences, rising costs, and increasing regulatory requirements, securities lending can help combat this pressure. In 2021, firms engaging in securities lending generated nearly \$11 billion in revenue.

This playbook will help you understand the key business, operational, and legal considerations that your firm can take into account as it looks to establish a securities lending program.



Key Regulations

A number of regulations directly or indirectly impact the securities lending industry and participants' activities. These regulations mostly concern agent lenders and are designed to improve beneficial owner protection by requiring better risk management, strict leverage and credit exposure limits, and increased transparency. Nonetheless, it is important to understand the implications as they can help guide your program's parameters.

- **US Dodd Frank Act and Comprehensive Capital Analysis and Review** mandate credit exposure limits and additional capital requirements, which impact agent lenders' capital available to support and fund requirements for securities lending transactions.
- **European Securities and Markets Authority** guidelines for Undertakings for Collective Investment in Transferable Securities place restrictions on securities on loan, collateral, reinvestment, and rehypothecation criteria.
- **EU Money Market Funds Regulation** prohibits securities lending and borrowing for regulated money market funds.
- **EU Markets in Financial Instruments Directive** requires agent lenders to perform best execution for securities lending transactions.
- **EU Shareholder Rights Directive** requires asset managers to disclose their securities lending policy and how it applies in shareholder engagement activities, which can impact agent lenders' reporting and operational activities.
- **EU Securities Financing Transaction Regulation** requires enhanced disclosures of securities lending activity and mandates securities lending transactions to be reported to approved trade repositories.
- **EU Central Securities Depositories Regulation** improves securities settlements by imposing cash penalties for failed matched trades, impacting the operational processes managed by agent lenders.

How to Establish a Securities Lending Program

When establishing a securities lending program, there are a few initial decisions you'll need to make.





Lending Parameters

What restrictions should be placed on borrowers, securities, and collateral?

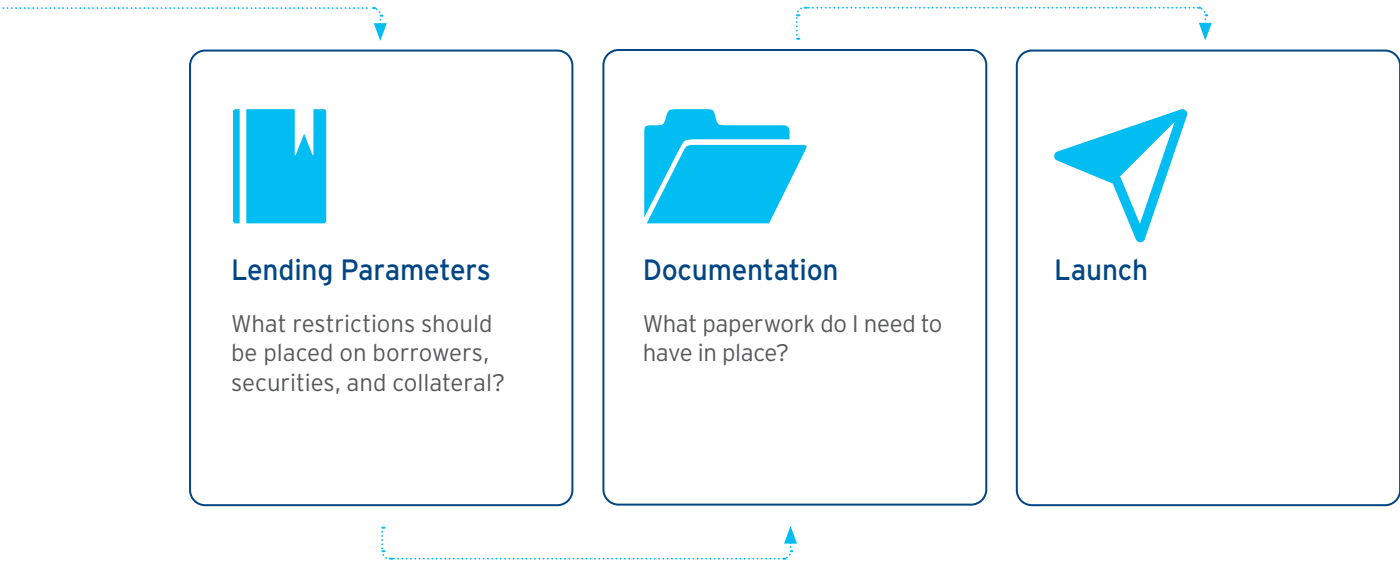


Documentation

What paperwork do I need to have in place?



Launch



Agent Lender

To establish a securities lending program, an agent lender needs to be appointed. The agent lender facilitates the transactions between the beneficial owner and borrowers. It is responsible for delivering and returning lent securities, managing risk by monitoring limits and securing appropriate collateral, managing corporate actions, collecting income, and reporting.

When selecting an agent lender, here are some key factors to consider:



Does it have the **market reach**?



Can it provide access to a diverse **borrower pool**?



Can it provide the **expertise** to navigate global and local regulations?



Does it have the **technology and data analytics capabilities** to lend optimally?



How strong is its **balance sheet** to manage risk?



How is the **governance and service model** for program management and oversight?



Can it **customise the program** to include eligible borrowers, securities and collateral?



How is the **collateral** held and managed?

Key Stakeholders and Board Approval

Prior to establishing a securities lending program, you need buy-in from internal stakeholders and the board of your program. They play a key role when defining the parameters of and overseeing the program and span across the front, middle, and back-office roles, at different levels of your firm.

Stakeholders include business partners that will be involved in the program's day-to-day execution and monitoring, such as:

- Trading desk and portfolio managers
- Operations
- Risk management
- Compliance
- Legal
- Tax
- Operations

Board includes seniors who are the ultimate decision-makers setting the program's scope, such as:

- Chief Operations Officer
- Chief Investment Officer
- Head of Trading
- Head of Treasury
- Head of Liquidity and/or Optimization



Program Scope

Defining the jurisdictions and asset classes that you lend is critical to success as they can drive returns.

Local market regulations dictate whether securities lending is permitted. For each local market, your agent lender carries out due diligence to understand the tax, regulatory, and operational nuances, such as settlement time, reconciliations, and income payments.

Beyond selecting which markets you want to lend in, you also need to define the types of securities that you want to include in your program. These include equities, exchange-traded funds, depository receipts, and fixed income.

Lending Parameters

Setting parameters for your lending program can help mitigate risks. There are three areas to consider.

Securities	<p>You can limit lending at an individual security level, percentage of portfolio level, or total asset level by applying various mechanisms.</p> <ul style="list-style-type: none">• Buffers set targets based on the daily average trading volume of a security in the given market, or concentration limits based on how much of a security is on loan in relation to the overall market.• Minimum Spreads apply minimum basis point spreads, following which only those loans meeting the set rebate rates will be placed.
Borrowers	<p>You can select borrowers for your program from a list of pre-approved borrowers that is typically maintained by your agent lender. You can specify acceptable borrowers based on nominal values, percentage of program, or aggregate portfolio values. This can be further refined for specific securities and markets.</p>
Collateral	<p>You can select eligible collateral types, margin requirements, and delivery timelines for your borrowers. To further enhance the returns of your lending program, you can also participate in a reinvestment program for cash collateral.</p>

Legal Documentation

The legal documentation governs the relationship and lending parameters between the beneficial owner and agent lender and between the agent lender and borrower. Depending on your lending parameters for some securities and markets, you may need to reflect the program in documentation, such as a fund's prospectus.



Securities Lending Authorization Agreement outlines the relationship between the agent lender and the beneficial owner of the securities. It details the agent's responsibilities and program's parameters, such as acceptable collateral and cash collateral investment policies.

Global Master Securities Loan Agreement is the standard international legal agreement between the agent lender and borrower. It includes various aspects of the lending processes, including, the types and reinvestment of collateral; fee and calculation methods; distributions of corporation actions, voting rights and dividends; securities recalls and return; contract terminations.

Subject to the markets in scope, you may need to sign additional local Master Securities Loan Agreements.

How can we help?

Whether you're looking to establish a securities lending program or grow an existing one, Citi can help. Citi's Securities Lending provides a global, custodian-agnostic platform for the world's leading financial institutions. With trading desks in five countries covering 75 lending markets and leveraging our 64 proprietary custody branches we have an unrivalled global footprint and local market expertise. This, combined with our leading-edge Trading Analytics and Optimization (TAO) quantitative engine, helps our clients optimize the value of their portfolios, while maintaining a robust risk management framework.

Let's Talk

To find out more about how our Securities Lending solution can help you, contact your Citi Representative or email us at SecuritiesServices@citi.com

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