

In November 2021 ISLA published a guide on **Voting Practices & Shareholder Engagement** that was developed and published in conjunction with four other regional securities lending associations. This guide was developed against the backdrop of the developing ESG agenda and sets out the general approach of the wider membership of our associations (comprising market participants across the global securities finance industry including beneficial owners, agent lenders, and borrowers/brokers) that securities should not be lent/borrowed for the primary purpose of voting.

In April 2021, the Bank of England republished the **UK Money Markets Code (Code)**. Chapter four of the Code contemplates Securities Lending and in Section 6, **Environmental, Social and Governance (ESG)** Criteria, Sub-section 6.3 guides market participants against the borrowing of securities for the specific purpose of voting and states-

“It is accepted good practice in the market that securities should not be borrowed solely for the purpose of exercising the voting rights at, for example, an AGM or EGM. Lenders should also consider their corporate governance responsibilities before lending stock over a period in which an AGM or an EGM is expected to be held.”

ISLA would also highlight the European Union’s **Shareholders Rights Directive II (SRD II)**, which contains requirements to facilitate the exercise of shareholder rights linked to voting and to enable issuers of European securities to gain greater identification of their shareholders. SRD II's purpose is to strengthen corporate governance and promote long termism and active engagement by shareholders, for example through facilitating use of voting rights, and to increase transparency.

Many investors have developed their lending programs in line with SRD II, specifically Article 3i (1) **‘Transparency of Asset Managers’**, in which asset managers must disclose their investment strategy to include the “use of proxy advisors for the purpose of engagement activities and their policy on securities lending and how it is applied to fulfil its engagement activities if applicable, particularly at the time of the general meeting of the investee companies”.

We also draw your attention to the specific Borrowers' Warranties provisions within the **Global Master Securities Lending Agreement (GMSLA) 2010 Agreements** where 14 (e) states-

“It is not entering into a Loan for the primary purpose of obtaining or exercising voting rights in respect of the Loaned Securities.”

An important part of our efforts in recent years has been working with institutional investors on the alignment of their lending programmes, and how their securities are used, with their active stewardship obligations. This focus has, if anything, been sharpened in the past two years as institutional investors and asset managers respond to the growing demand from their underlying investors for investment strategies that support the transition to net zero and create real sustainability impacts.

We would encourage all our members and wider industry participants to adopt ISLA best practice in this regard and adhere to the terms of the Code as appropriate.

[Note: In the US, under the Reg T 'Permitted Purpose Rule' borrowers need to ensure that borrowing for the purpose of voting does not occur (subject to certain specified exemptions). (Section 220.10 Reg T)]