ISLA INTERNATIONAL SECURITIES LENDING ASSOCIATION

Linklaters

ISLA & Linklaters White Paper

The Future of the Securities Lending Market | An Agenda for Change

Contents

Foreword

Digital transformation is having a profound impact across all aspects of public and private life. The so-called 'Fourth Industrial Revolution'[1] defines how technologies like Artificial Intelligence (AI), autonomous vehicles and the 'internet of things' will progressively blur the lines between these technologies and human lives.

Whilst many point to the technologies themselves as the drivers, others argue that technology is simply an enabler, with volume of data, and the availability of data in a digitised form, the primary fuel for these fundamental changes.

The Fourth Industrial Revolution is disrupting almost every industry in every country and creating massive change at unprecedented speed. Financial services have not been immune to the wave of digitalisation sweeping across most elements of our lives, with the banking and investment management communities looking to understand how they must change their business and operating models to reflect this new world. Set against this backdrop, we find our corner of the financial markets at something of an inflection point, where the potential opportunities afforded by the fundamental changes in the way we live our corporate lives, are merging with the impact of the regulatory agenda that we have seen in Europe since the financial crisis of 2007/2008. Historically, securities lending markets have by and large been manually intensive, relying on either post trade operations teams or tactical technology solutions that negate the symptoms of a rigid and inflexible infrastructure. These inherently inefficient operating models look increasingly less sustainable, especially as banks hope to increase efficiencies or reduce costs in light of declining revenue numbers.

The challenges presented by an increasingly complex regulatory and business environment, are forcing the market to think more broadly about how it can use the structural rigour created by SFTR and CSDR, to leverage real business benefits and drive change around both operating and cost models. Inevitably, the market, like many others, is turning to technology to help solve these challenges. It is doing this at a point in time when the technology and data landscape is changing out of all recognition.

ISLA is developing a broad agenda for change across the industry that will allow our market to capitalise on the investment that it has already made to support SFTR, CSDR and other mandatory obligations, by the creation of a common operating model. This white paper, produced in conjunction with Linklaters LLP, aims to discuss these ideas in more detail, as part of a wider debate over the future of the industry.

We hope that this white paper will spark an open and forward-looking debate across the market as we define how this industry wants to look in years to come.

Andrew Dyson
CEO, ISLA

1 Klaus Schwab, Founder and Executive Chairman of the Geneva-based World Economic Forum, published a book in 2016 titled 'The Fourth Industrial Revolution'. He argued that a technological revolution is underway 'that is blurring the lines between the physical, digital and biological spheres'.

Vision for the Future

The securities lending market is at a crossroads. The market is becoming increasingly complex, and regulation increasingly onerous. As a result, processes and systems that have until now served the market well are proving increasingly cost- and time-intensive, given the degree of fragmentation and reliance on manual processes.

On the market's current trajectory, costs and risks will continue to increase – potentially to unsustainable levels. The alternative is to recognise and engage with these changing conditions by standardising, automating and streamlining processes. This will yield significant future benefits, future-proof this vital industry and contribute to the smooth running of the global financial markets. The market has an opportunity to embrace this vision and take action now in order to bring this vision to life.

The securities lending market and the way in which it operates has become increasingly complex, and relevant regulation more pervasive and onerous. This is particularly apparent in light of regulation which is due to apply over the next few years, such as reporting requirements under SFTR[2], and penalties for settlement failure under CSDR, which will create a need for entities to streamline processes that reduce the risk of settlement failure (settlement rates for securities lending as at 2018 were estimated to be between 80% and 90%[3]). Each of these developments provides a catalyst for considering how the market currently operates and whether it could improve. Despite this increasing complexity and regulatory burden, the market has grown in a haphazard and fragmented way, with each market participant developing its own systems and methods for dealing with the issues that arise at each stage in the life cycle of a lending relationship. As a result of the siloed and ad hoc manner in which some processes have been developed, much of the interaction between market participants, and even within institutions, is manual, duplicative and not standardised. This brings about delays, inefficiencies, higher costs and higher risk at a time when revenue and margins are under pressure.

Action has been taken to harmonise certain areas of the securities lending market to date, including the development of a standard legal framework (both in relation to transaction documentation and related industry legal opinions, evidenced most recently through the development of the GMSLA pledge documentation), industry-led guides and best practices (such as the ISLA Best Practice for Operational Processes for Securities Lending Transactions), use of industry working groups to consider the impact of regulation and to advocate to relevant regulators where necessary, and the use of the Agent Lender Disclosure ("ALD")[4] model. There are also a number of technology vendors working to provide market participants with solutions to specific issues, ranging from client onboarding to regulatory reporting, amongst others.

Despite this good work, inefficiencies and fragmentation remain, particularly in the way that entities and systems relate to one another. Market participants have, broadly, developed their own internal systems for KYC/AML and client onboarding. These systems can be manual and time-consuming and result in significant delays to the onboarding of new entities (even at times where documentation has been agreed).

Nevertheless, regulatory and technological catalysts provide the market with an opportunity to reconsider how loans are managed and how processes can be adapted and streamlined. The ultimate vision is a market that is automated, streamlined and interconnected (across events and market participants) in a way which is scalable and future-proof, so it can be adapted as the environment (whether legal, regulatory or practical) changes over time. In its ideal form, the lifespan of a securities loan would work as follows.

2 There are potentially 155 data fields to be completed in an SFTR report (over 80 of which need to match with the counterparty's report in order for the report to be accepted by the trade repository) and reporting triggers are linked to changes to the mark-to-market value of the loan, which will result in almost daily reporting. Furthermore, the SFTR ITS, in relation to reporting, requires market participants to report the loan in a common XML template in accordance with ISO 20022 methodology, which will require a systems build by many participants.

3 As measured and estimated by responders to the ISLA survey Q1 2018.

4 ALD is the process whereby the underlying client breakdown in a bulk securities lending transaction is disclosed to the borrower.

Pre-contractual

A new counterparty would easily provide relevant information for KYC/AML/onboarding purposes through data held centrally and kept up-to-date. It would be automatically captured and stored electronically so that it can be easily transferred into individual institutions' systems and used for various onboarding needs.

Contractual (master agreement/loan)

Negotiation and execution of legal documentation would take place on an electronic platform with an ability to easily apply or disapply standardised and industry-recognised drafting, as well as to check the documentation against applicable legal requirements. Booking of a loan would take place automatically based upon agreed market practice/conventions. Again, relevant information would be automatically captured and stored by the electronic platform so that it can be easily transferred into individual institutions' systems and used for a variety of internal and regulatory needs, such as credit assessments.

Allocation

Where a bulk or pooled lending structure is used, allocation and communication of allocation to the borrower would take place swiftly and automatically after execution of the loan. Again, relevant information would automatically be captured and stored electronically so that it can be easily transferred into individual institutions' systems and used for onwards internal consumption.

Performance/Enforcement

The data captured in the initial stages would feed automatically into middle- and back-office systems set up to manage life cycle events, each of which is represented by a common digital representation. This digital representation would be agreed by the market in the form of a common domain model, and would represent one of the key foundations discussed in this paper. Life cycle events would then, to the extent feasible, be managed automatically and efficiently – with necessary data being fed in from connected internal and external systems. Such processes will facilitate the monitoring of performance and settlement efficiency. They could also extend to automated enforcement in default scenarios.

Termination

Again, the data captured in the initial stages (and kept up-to-date throughout the life of the loan) would feed automatically into middle- and back-office systems set up to manage termination and ensure consistency of approach across the parties to the loan. This event would also be represented by a common digital representation. As noted, underpinning most, if not all, of these developments would be an agreed, market-wide data representation of the key features and life cycle events of transactions: a common domain model.

SFTR reporting will also be relevant to virtually all stages of this lifespan. Data captured at the pre-contractual stage could be extended to cover the substantial counterparty data required for SFTR reporting, some of which would not necessarily be captured by standard onboarding processes. Processes necessary for SFTR reporting, such as generation and communication of loan UTIs, and obtaining counterparty confidentiality waivers for the purposes of including counterparty data in reports, could be built into any electronic platform used for document negotiation. Many events which occur during the life cycle of a securities loan will trigger a need to report under SFTR, including re-use of collateral. This is exacerbated by the fact that requirements regarding the format and content of SFTR reports are detailed and precise. Streamlined and automated processes for managing each life cycle event could assist processes for quickly and effectively generating SFTR reports based on matched data.

This vision envisages minimal manual intervention and reconciliation, and would significantly reduce the time spent and cost incurred managing the transaction, as well as legal and operational risk. A process along these lines would reduce the costs of compliance with upcoming regulatory requirements, as well as provide a robust platform from which to adjust to accommodate future regulatory requirements. At a time when margins are under pressure and there seems to be little ability to increase revenue, looking for ways to leverage operational efficiencies will be important to manage the profitability of the market (and necessary to avoid incurring regulatory penalties, further reducing margins).

There may thus be concerns that the costs to achieve such a vision are too high and that a fully integrated, automated process flow as set out above is a distant prospect. This white paper sets out a vision which we can strive towards – it is important for the industry to set an overall objective in light of current market stress points as well as technology that is now available. This is not to say that this is an all-or-nothing proposal or that the securities lending market must evolve in the way described. Progress can be gradual, realistic and achievable stepping stones needed for the next 2-5 years. A coordinated approach and targeted deployment of technology over the short-term could yield significant benefits for the future.

The costs of working towards this ultimate vision must be weighed against the costs of not doing so – whether this be the more

apparent costs of possible regulatory penalties under CSDR for settlement fails or the potentially substantial operational costs related to an unmatched SFTR report (requiring the trade repository to revert to the counterparties to correct the data), or the wider and increasing costs of managing securities loans in an inefficient and fragmented market. Our vision of a fully streamlined and connected market may seem distant at present, but it is also achievable. Most importantly, by not doing this, we run the risk that the direction of travel in our industry will fall out of our hands. We need to be leaders in driving this change, not followers.

We are not alone in addressing the need for change. Other related markets have been considering the benefits associated with standardising and automating processes, and encouraging the use of technology. This includes, for example, the OTC derivatives market, where ISDA has developed the ISDA common domain model, which creates a single, common digital representation of derivatives trade events, and ISDA Create, which is an online platform to negotiate initial margin documentation (amongst other things). It is important that the securities lending market develops in a similar manner. This would help to ensure coordination across markets and that the market adopts technological solutions that are not only relevant for securities lending but are also compatible with related markets, avoiding the need for market participants to use potentially duplicative and inconsistent systems.

This white paper seeks to provoke thought and discussion as to how the industry can collectively move forward and the standards and framework which should guide such collective action.

ISLA is focused on coordinating with other related trade associations to ensure that, where there is cross-over, the market develops in a way that is harmonised across these different products.

A summary of key suggestions is set out in the table on pages 10–13.

Common Domain Model (CDM)

What is a domain model?

In the context of financial markets, a domain model is a data representation of the key features and life cycle events of transactions. The relevant data is delivered into a firm or platform's systems in order to process transactions and carry out related ancillary processes, including trade confirmation, reporting and settlement, to name but a few. Other systems also make use of that data, including for example, an institution's risk, credit and finance systems.

What is a CDM?

A CDM is a single, market-wide domain model: it is a common data representation of transaction events, used by the market as a whole. That common data representation is the foundation for the development of solutions that are scalable, efficient and that future-proof our market.

Does the market need a CDM?

Without an agreed and common data representation of key transaction features and life cycle events, each firm and platform must continuously reconcile its own data with that of other participants in order to ensure that they have the same information. That gives rise to inefficiency and is a brake on the development of automation and other technological solutions for the market at scale.

Are other markets using a CDM?

In the context of the derivatives markets, ISDA has developed and published the ISDA Common Domain Model, currently for interest rate and credit derivatives. Other markets are looking at extending the ISDA CDM to enhance standardisation and facilitate interoperability.

STAGES

	PRE-CONTRACTUAL	CONTRACTUAL (MASTER AGREEMENT)	CONTRACTUAL (LOAN)	ALLOCATION
What happens at this stage?	> KYC/AML/onboarding	> Negotiation, execution and production of GMSLA > Recording of GMSLA data in internal systems	> Negotiation, execution and production of loan/ trading > Recording of loan data in internal systems	> Allocation of loan to underlying principals (if applicable)
What are the key problems at this stage?	> Processes are bespoke, bilateral and typically highly manual > Different information and format requirements between market participants > Separate storage of information within each institution	> Legal documentation negotiated on a bilateral and bespoke basis to a greater extent than may be necessary (to reflect differences in "house style" rather than different commercial intent) > Inconsistent approaches taken across market to same type of provision > Negotiation, execution and production of legal documentation is a highly manual process > Processes to adjust documentation to reflect legal requirements/check industry legal opinions is highly manual > Lack of standardised approach to seeking and logging internal approvals	> Negotiation, execution and production is a highly manual process > Trade booking requires manual intervention which might cause settlement failure (due to increased risk of unmatched trades)	> Process is manual and slow > SFTR requirements mean that allocation, and notifying the borrower of allocation details, needs to take place within a strict timeframe > Post-allocation checks against credit limits
Overall effect of these problems	> Significant delays to trading with new counterparties and lost revenue/trading opportunities/range of counterparties for best execution > Potential adverse impact on ability to comply with SFTR reporting requirements	> Delay to execution of Master Agreement and increased costs > Increased difficulty of adjusting documentation to reflect legal requirements – increased risk of non-compliance > Difficult to obtain an overview of prevalence of certain provisions in documentation with counterparties > Potential adverse impact on ability to comply with SFTR reporting requirements	> Delay to execution of loan documentation and increased costs > Slower trade matching and increased risk of settlement failure and costs spent on reconciliation (and possible penalties under CSDR) > Potential adverse impact on ability to comply with SFTR reporting requirements	> Time costs > Potential adverse impact on ability to comply with SFTR reporting requirements > Increased operational and liquidity risks if trade is unchecked against internal credit limits

COMMENCEMENT	PERFORMANCE	ENFORCEMENT	TERMINATION
> Delivery/payment on commencement of loan	> Occurrence of life cycle events, including collateral management and corporate actions	> Events of default	> Redelivery/ repayment upon termination of loan
> Processes and systems are often manual and differ between market participants	> Manual, inconsistent processes and systems	> Manual, inconsistent processes and systems	> Processes and systems are often manual and differ between market participants > Failure to capture necessary data at outset, and keep abreast of data changes, could lead to settlement fails
> Time costs > Increased risk of settlement failure (and possible penalties under CSDR) and the need to reconcile between institutions	> Time costs (e.g. due to increased need to carry out reconciliation exercises) > Potential adverse impact on ability to comply with SFTR reporting requirements	> Time and cost incurred in managing these processes manually	> Time costs > Increased risk of settlement failure (and possible penalties under CSDR) and the need to reconcile between institutions

STAGES

	PRE-CONTRACTUAL	CONTRACTUAL (MASTER AGREEMENT)	CONTRACTUAL (LOAN)	ALLOCATION
Long-term solutions and key benefits	> Standardisation of onboarding requirements across the market, leading to reduction in time and cost for new clients to start trading > Centralised repository of information or use of comparable platforms or vendor services. This would reduce currently duplicative, costly and complex processes that are siloed for each institution	> Further standardisation of the GMSLA and additional terms/ elections > Utilising systems that generate standardised data > Utilising electronic negotiation and execution platforms > Such platforms and systems can facilitate the use of data analytics on both the negotiation process and document data itself, and provide a way to centralise entities' internal approval processes	> The development of a CDM to represent digitally the key features and life cycle events of trades, to drive scalable, efficient and market-wide solutions > Utilising systems that generate standardised data, improving transparency and reducing complexity > Utilising electronic negotiation and execution platforms > Such platforms and systems can facilitate the use of data analytics on loan data > Structured data could also feed into automated systems – potentially including smart contracts technology in due course	> Developing automatic systems to provide feedback to lenders and borrowers on allocation on as close to an instantaneous basis as possible > Faster, automated allocations will facilitate ancillary functions, including for example SFTR reporting and credit limit verification
What solutions should the industry put in place in the next 2-5 years?	> Preparing standard KYC/onboarding questions, with a prescribed format of response that would comply with SFTR reporting requirements (where applicable) > Considering solutions/ vendors for the storage of certain basic information required as part of the KYC/ onboarding process, particularly SSIs	> Preparing standard drafting for certain provisions or changes typically made to the GMSLA as part of a bilateral negotiation > Hosting the GMSLA and related documentation on an electronic negotiation and execution platform > Considering the ways in which logic from the ISLA opinions could be integrated into an automated process flow	> Automating the process of SFTR report generation and loan data validation between market participants*	> Developing automatic systems to provide feedback to lenders on allocation on as close to an instantaneous basis as possible

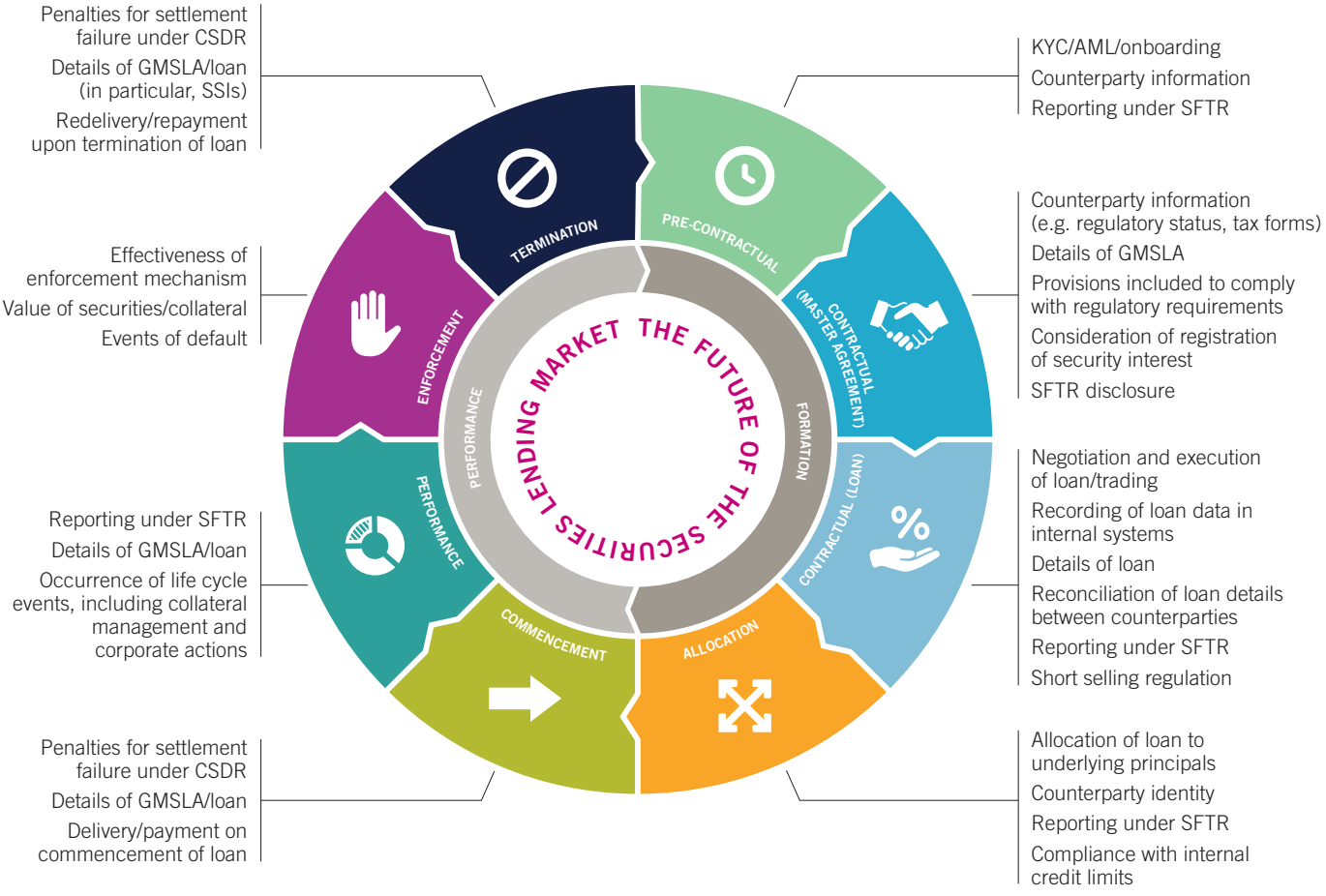
* This would be further facilitated by initiatives such as the FCA's Digital Regulatory Reporting (DRR) project in the UK, which are beginning to explore the potential for model-driven and machine-readable regulations.

COMMENCEMENT	PERFORMANCE	ENFORCEMENT	TERMINATION
> The development of a CDM to represent digitally the commencement of a loan which is tied to the data electronically captured in earlier stages > Automation of communication between institutions and delivery flows based on this common representation will help reduce settlement fails	> The development of a CDM to represent digitally the life cycle event which is tied to the data electronically captured in earlier stages > Automation of communication between institutions and the mechanics of the life cycle event (where appropriate) based on this common representation will help reduce settlement fails and automate costly manual processes > Such processes also facilitate the monitoring of performance and settlement efficiency	> The development of a CDM to represent digitally the life cycle event which is tied to the data electronically captured in earlier stages > Automation of communication between institutions and the mechanics of the life cycle event (where appropriate) based on this common representation will help reduce settlement fails and automate costly manual processes	> The development of a CDM to represent digitally the termination of a loan which is tied to the data electronically captured in earlier stages > Automation of communication between institutions and delivery flows based on this common representation will help reduce settlement fails and automate costly manual processes. It may also be applied to automate enforcement, for example in a default scenario
> Building a common digital representation of the commencement of a loan > Increased use of existing market functionality which maximises settlement, including pre-matching	> Building a common digital representation of the events which arise during the life cycle of the loan > Considering processes and tools for automatically generating SFTR reports > Develop best practice guidelines to promote the timely, effective and accurate management of life cycle events	> Building a common digital representation of events of default	> Building a common digital representation of the termination of a loan > Considering solutions/ vendors for the storage of SSIs

Relationship Life Cycle

The key stages in the life cycle of a securities lending relationship are highlighted below, as well as (i) key data required and produced in each stage and (ii) the corresponding regulatory/legal requirements and processes.

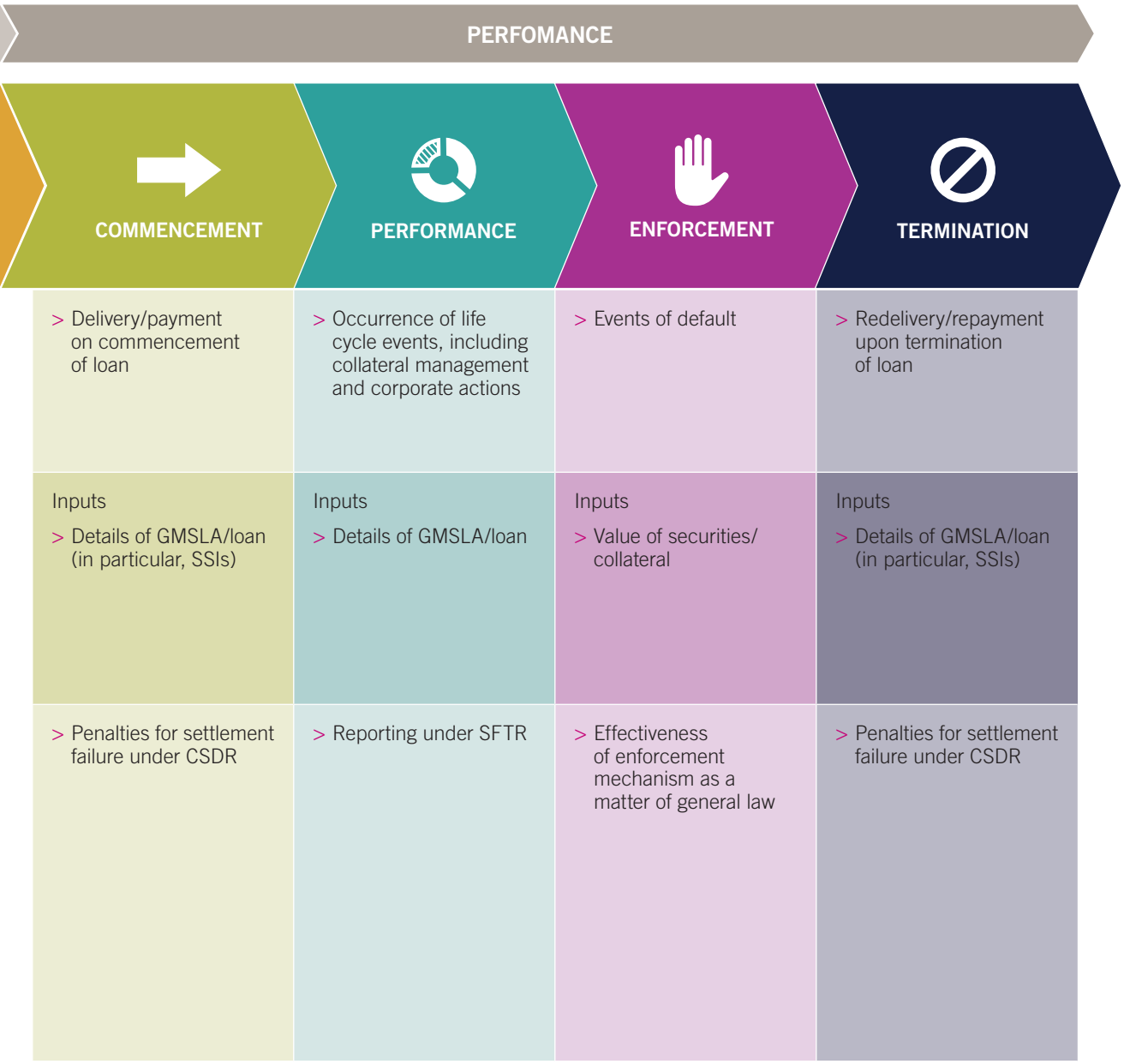
This white paper then discusses each stage in the life cycle of a securities lending relationship in greater detail, outlining the issues that market participants currently face and a possible alternative future state. Actions which could be taken in the next 2-5 years are specifically highlighted.



FORMATION

	PRE-CONTRACTUAL	CONTRACTUAL (MASTER AGREEMENT)	CONTRACTUAL (LOAN)	ALLOCATION
	> KYC/AML/onboarding	> Negotiation, execution and production of GMSLA > Recording of GMSLA data in internal systems	> Negotiation, execution and production of loan/ trading > Recording of loan data in internal systems	> Allocation of loan to underlying principals (if applicable)
Data	Inputs > Counterparty information (e.g. LEIs, tax forms, SSIs) for each underlying principal	Inputs > Counterparty information (e.g. regulatory status, tax forms) Outputs > Details of GMSLA	Outputs > Details of loan (e.g. delivery dates)	Outputs > Counterparty identity > Verification of exposures based on internal credit limits
Regulatory and legal requirements	> Reporting under SFTR*	> Provisions included to comply with regulatory requirements e.g. BRRD > Consideration of registration of security interest > SFTR re-use disclosure > Reporting under SFTR > Use of ISLA industry opinions for regulatory capital purposes	> Reconciliation of loan details between counterparties > Reporting under SFTR > Short selling regulation	> Reporting under SFTR > Compliance with internal credit limits

* Although the reporting obligation under the SFTR has not yet come into effect, we have considered this factor in the transaction life cycle as it is currently a key issue for firms that will be caught by the reporting obligation when it comes into effect. We are aware that in-scope firms are in the process of preparing their systems to ensure compliance with the SFTR reporting obligation. This issue is particularly relevant in the context of this white paper as significant benefits can be realised from the digitisation of workflows in the reporting process and the adoption of standardised formats. This aspect is explored in further detail later in this white paper.


PERFOMANCE
COMMENCEMENT
PERFORMANCE
ENFORCEMENT
TERMINATION
> Delivery/payment on commencement of loan
> Occurrence of life cycle events, including collateral management and corporate actions
> Events of default
> Redelivery/repayment upon termination of loan
Inputs
> Details of GMSLA/loan (in particular, SSIs)
Inputs
> Details of GMSLA/loan
Inputs
> Value of securities/ collateral
Inputs
> Details of GMSLA/loan (in particular, SSIs)
> Penalties for settlement failure under CSDR
> Reporting under SFTR
> Effectiveness of enforcement mechanism as a matter of general law
> Penalties for settlement failure under CSDR

Stage 1: Pre-Contractual

Existing processes for KYC/AML and counterparty onboarding often work on a purely bilateral basis, requiring individual and bespoke discussions with each counterparty. These processes are also typically highly manual in nature and market participants have developed different requirements regarding the information that must be provided (although there is significant cross-over) and the format in which this information needs to be provided. This data is then separately stored within each institution. This results in a process which is time-consuming and delays the ability to trade with new counterparties – an issue which is exacerbated by the need to refresh this information periodically and, in the context of agency lending, the need to onboard each underlying principal. These delays have a direct impact on revenue and trading opportunities for clients.

IT IS ESTIMATED THAT THERE ARE ~15,000 FUNDS ACTIVE IN SECURITIES LENDING GLOBALLY.

Developments such as the requirement for market participants to obtain legal entity identifiers (LEIs[5]) have helped drive consistency in certain elements of the data required. However, the resources and costs incurred on this stage could be significantly reduced by the following.

Standardisation of onboarding requirements

The industry could work to standardise the content and format of information required for KYC/AML/onboarding purposes.[6] This could include, for example, achieving an industry set of key onboarding requirements (including as to the format of the information required), which may be supplemented to reflect an individual institution's requirements. This would allow entities to easily supply the necessary information to multiple counterparties. This would reduce the time needed to collate that information and, therefore, the delay before new clients can start trading. There are vendors in the market who are already considering onboarding solutions.

Centralised repository of information or use of comparable platforms or vendor services

Whilst consideration is already being given to this in the market, the increased uptake or use of centralised information services (including vendor services or platforms) for certain key onboarding information through which information can be provided to counterparties and stored electronically would again drive standardisation and thereby reduce onboarding delays.

This would allow for the necessary information to be provided to potential counterparties on a multilateral basis or, in respect of certain basic data stored in a central repository, remove the need for specifically requesting that information.

Consideration would need to be given to the data that could be securely stored in that central repository and who would have access to that data (and in what circumstances). Regardless of the ultimate solution adopted, data security will need to be a key consideration.

The ability to capture this information electronically (either in a central repository or other platform) allows systems to be built which would process that data and generate reports in a way that complies with regulatory requirements – in particular in the specific, harmonised format required for SFTR reporting. Similarly, electronic platforms could include reminders about the need to refresh the onboarding information and an easy mechanism for that information to be refreshed, where needed.

One key example of the type of data which it would be beneficial to have captured (and updated or maintained) in a centralised manner at the outset of a relationship is an entity's SSIs. The manual capture, maintenance and processing of SSIs and, in some cases, the change of SSIs between the initial delivery under the loan and redelivery upon termination of the loan and the often manual amendments process associated with this, has been identified[7] as a key reason for settlement fails under loans.

5 ISLA has recently published a report on 'The LEI & Securities Financing Transaction Regulation (SFTR)' (September 2019) analysing the LEI coverage of fields that require its use, and noting that LEI issuance of asset issuers is not as widespread as that of trading counterparties.

6 We acknowledge, however, that there may be a need for the standard adopted to cater for differences based on any jurisdiction-specific requirements.

7 ISLA CSDR Working Group – CSDR: Settlement Discipline Impact to Securities Lending (Phase 1: Identifying The Issues): https://www.isla.co.uk/wp-content/uploads/2019/03/CSDR_ISLA_Settlement_Discipline_Impact_to-Securities_Lending_Phase-1.pdf

Penalties for settlement fails under CSDR will provide a significant incentive to reduce the risk of these taking place. ISLA has developed best practices in terms of establishing and amending SSIs, but often this is still a time-consuming process not adequately adapted to the short timeframes of trading. Widespread adoption of a central repository or other platform or vendor service for SSIs that can be easily confirmed and updated would be a significant step forward in this area.

In addition, this repository of information could be expanded to counterparty data required for SFTR reporting purposes, but which would not necessarily be caught by standard onboarding processes. This would include, for example, the counterparty's 'sector' (which must be reported) and whether the counterparty is a non-financial counterparty ("**NFC**") who is a 'small medium enterprise' (such that for NFCs, counterparties must report on their behalf). Confidentiality waivers may be needed in order for counterparty data to be included in an SFTR report – this could be built into relevant data provision platforms and repositories. Another issue is the fact that many securities issuers worldwide do not have issuer LEIs, which means that in practice such securities cannot be used as collateral for securities loans that are reportable under SFTR – a solution to this issue would be extremely beneficial.

What is achievable in the next 2-5 years?

Steps the industry could take in order to yield significant benefits over the next 2-5 years could include:

> Preparing standard KYC/ onboarding questions, with a prescribed format of response that would comply with SFTR reporting requirements (where applicable).

> Consider solutions/vendors for the storage of certain basic information required as part of the KYC/onboarding process, particularly SSIs.

WE NEED TO BE LEADERS IN DRIVING CHANGE, NOT FOLLOWERS.

Stage 2: Contractual – Master Agreement

Whilst ISLA has made available industry-standard documents (i.e. the GMSLA and related documents), these documents can be negotiated and amended on a bilateral and bespoke basis. This adds time and complexity to the negotiation process, requiring counterparties to individually assess and negotiate each GMSLA. In certain circumstances, these differences in terms do not reflect materially different commercial intentions, but rather drafting that has developed separately and so diverged between institutions.

The process of negotiating and executing GMSLAs is also often manual in nature, requiring a significant amount of bilateral communication between counterparties.

The inefficiencies created, and costs incurred, by these manual and bilateral documentation processes are exacerbated when relevant legal requirements are considered.

ISLA ESTIMATES THAT THERE ARE 5,000 GMSLA OR EQUIVALENT AGREEMENTS ACTIVE IN THE MARKET TODAY.

Provisions to satisfy legal requirements

The process for managing changes to documentation to reflect legal requirements can be arduous and costly. To take one example, in-scope European Economic Area entities that may be subject to resolution under BRRD are required to include in their non-European law governed agreements wording to comply with the contractual recognition of bail-in requirements under BRRD as implemented in the relevant jurisdiction (and, if applicable in the relevant jurisdiction, the contractual recognition of resolution stays requirement). Post-Brexit, it is possible that these requirements will extend for certain entities to English law governed GMSLAs. Tracking how and when this wording has been added to GMSLAs is not currently carried out in a standardised manner, resulting in a process which is time-consuming and manual. In certain circumstances, protocols published by ISDA are used to make the necessary amendments to GMSLAs – this requires market participants to track whether and when their counterparties have adhered to the relevant protocol.

Similarly, Article 15 of SFTR has imposed disclosure obligations on market participants to provide certain risk disclosures in connection with title transfer collateral arrangements. This requires additional documentation to be provided to counterparties in a securities lending arrangement – whilst the wording of this disclosure has been standardised, the manner in which the disclosure is made is often bilateral and manual.

The ongoing reforms to global interest rates (and associated movement towards the use of alternative risk-free rates) may also result in changes having to be made to underlying documentation. Although industry bodies are attempting to formulate standardised language to replace existing provisions in agreements, there can often be long drawn-out bilateral negotiations between parties attempting to agree a common position.

Use of market legal opinions

Market participants and vendors have developed their own systems and processes to check an individual GMSLA against the ISLA market-commissioned legal opinions, in order to ensure that the counterparty and GMSLA in question fall within the scope of the opinion (including making any necessary or recommended changes to the GMSLA to ensure this is the case). This process is often manual, requiring a review of the legal opinion in question against the GMSLA and counterparty type (based on disclosure from the counterparty). This is time-consuming and costly, and may also fail to account for changes made to the ISLA commissioned legal opinions over time, in particular where additional changes to the GMSLA are recommended in a later iteration of the opinion due to legal developments.

Regulatory requirements could prove a catalyst for greater standardisation and automation of the negotiation and execution processes. In particular, reporting under SFTR will require relevant data (whether at GMSLA or transaction level) to be reported in a way that meets the precise formatting and content requirements of this regulation. Negotiations of relationship- and trade-level terms that capture the necessary data in an agreed format which meets these requirements, and which is easily accessible by the counterparties, would have significant benefits.

The issues identified in this stage could be remedied by:

Further standardisation of the GMSLA

Further standardising the provisions of the GMSLA, particularly by agreeing industry template drafting for provisions typically added to, or amendments made to, the GMSLA as part of bilateral negotiations between counterparties. Whilst it is unavoidable that certain differences will need to exist between GMSLAs to reflect different commercial intentions and entity tolerances for certain types of risk, there are areas where differences in approach are not necessary. It would be possible to prepare standardised and more specific elective provisions which contemplate, for example, the mechanics for a party to make elections regarding corporate events.

Data processing

Establishing systems that generate reports using the data associated with a GMSLA in a standardised manner that is consistent with SFTR reporting requirements.

Electronic negotiation and execution platforms

Using electronic platforms to negotiate and execute GMSLAs (a relevant example being ISDA Create, an online platform used to negotiate intial margin documentation in the derivatives market). This would provide an easy route for electronic processing of data (as noted above, this should be built in a way that is consistent with SFTR reporting requirements as certain information captured at the GMSLA level may also be covered by the SFTR reporting obligation). This would also streamline and speed up the negotiation process - the platform could be pre-programmed to include all standard terms that could be added to the GMSLA, for example with respect to agency lending, which would make it easier for counterparties to elect whether to apply them or not. Use of electronic platforms would also allow market participants to analyse more easily their negotiation process and determine where issues typically arise, providing a way to further streamline the process and focus on areas that cause issues in practice. They would also enable internal workflows and approvals to be embedded within the platform, thereby creating a contemporaneous pack of approvals obtained (and from whom) and prevent deviations from internally approved parameters.

Consideration could be given to connecting any such electronic platforms to relevant onboarding solutions in order to reduce set-up/maintenance costs and provide a streamlined system for the collection of data and SFTR reporting.

To the extent that GMSLAs that have been negotiated on an electronic platform require subsequent amendments to be made (whether on a one-on-one basis or a one-on-many basis), those amendments could be effected easily, quickly and, if necessary, with an easy outreach to multiple counterparties at the same time. Such a feature may be useful to include new principals in the case of agency lending, BRRD provisions in English law governed GMSLAs post-Brexit or to include fall-backs or replacements for certain interest rate benchmarks.

Electronic platforms can also be designed to provide functionality for digital execution processes and digital signatures. An integrated platform in which the execution process is built into the workflow would make the pre-contractual process simpler, quicker and more efficient. This would mean that multiple counterparties could access the document at the same time, limiting practical restrictions such as time and location of signatories. Various jurisdictions have recognised the benefits that could be derived from this and have formulated and/or amended (or are considering formulating/amending) regulations to recognise the enforceability of digital documents and signatures to facilitate digitising the execution process.

Online negotiation platforms will effectively become the golden source for GMSLA data points as they can be quickly downloaded into firms' systems with a greater degree of accuracy, rather than requiring manual transposition, which is time consuming and may not be error free.

Tied to the above, electronic platforms and automatic processes which also consider the necessary legal and regulatory overlay would be hugely beneficial. This could include agreeing industry standard drafting for provisions which may need to be added, or changes to be made, if a particular ISLA commissioned legal opinion is to be applied, which could be fed into the electronic negotiation platform. Alerts could be embedded into this platform which note to market participants when a change is being made to a provision which cannot be amended if the ISLA commissioned legal opinion is to be relied upon.

What is achievable in the next 2-5 years?

Steps the industry could take in order to yield significant benefits over the next 2-5 years could include:

> Preparing standard drafting for certain provisions or changes typically made to the GMSLA as part of a bilateral negotiation.

> Host the GMSLA and related documentation on an electronic negotiation and execution platform. As noted above, consideration could be given to the connection between such platform and electronic onboarding solutions.

> Consider the ways in which logic from the ISLA commissioned legal opinions could be integrated into an automated process flow, to allow for implementation of the considerations arising from that opinion in order to ensure opinion coverage for a specific relationship or transaction.

Stage 3: Contractual – Loan

The trade booking process also requires manual intervention in a number of instances in practice, which can ultimately lead to risks of settlement failure. Issues arise due to failures of counterparties to agree the timing of booking (e.g. due to time zone differences or internal cut-offs), use of different data for pricing purposes and use of data which is inconsistent or out-of-date. All of this results in unmatched trades, requiring manual action to be taken within institutions and, potentially, leading to barriers to settlement of the loan. Further automating the trade matching process and the content and format of the data which is used by market participants to book loans (and to notify the details of the loan to their counterparty), ensuring this is in the prescribed format for SFTR reporting purposes (i.e. XML template in accordance with ISO 20022 methodology) would increase the speed and frequency of trade matching. This may have significant cost-saving benefits, particularly in light of upcoming regulatory penalties for settlement failure.

There are a variety of legal considerations which apply at the time of trading, which mean that, to the extent the process can be standardised and automated, there are significant benefits to be gained.

SFTR reporting and record-keeping

Entering into the loan will trigger the reporting requirement under SFTR, which must take place on a T+1 basis. This requires speedy and comprehensive reporting using a specified data standard and in a prescribed data format. To the extent the necessary data from a particular loan (in combination with the data collected during the onboarding and GMSLA negotiation process) can be standardised and fed into systems which automatically generate reports in the necessary format, this has the potential to significantly reduce the risk of failing to comply with this regulatory requirement, in particular as a result of reports by each counterparty to the transaction failing to match. There will likely be substantial operational costs if the reports made to a trade repository fail to match, with the result that the trade repository must revert to the counterparties to correct the data. In addition, it will be necessary to agree between the counterparties who will generate the UTI for the loan, and the UTI must be provided to the counterparty. The automation of the trade booking and this UTI generation process would be a significant step towards easing compliance with SFTR reporting requirements – this would ensure the consistency of data between counterparties to the trade, which is a necessary step to comply with this regulatory requirement. This would also be helpful for those market participants who report on behalf of their counterparties.

These automated processes could also be used to feed into compliance with SFTR recordkeeping requirements in relation to securities financing transactions.

Short selling

A number of jurisdictions contain restrictions on short selling and require that a lender and/or borrower be able to demonstrate that it has committed to lend, or has sourced a borrowing of, the relevant securities in some specified way. As the market moves towards further automation and electronic platforms, consideration could be given to such platforms automatically generating the evidence of this for market participants to share with regulators, where needed.

Registration of security interest

Where market participants are using the GMSLA pledge documentation, consideration will need to be given as to whether registration of the security interest is required in the jurisdiction of the security grantor (although in the case of the EU it is expected that in many cases the arrangement will constitute a 'security financial collateral arrangement' under the FCD as implemented in the relevant jurisdiction and so not require registration to the extent it otherwise would in that jurisdiction). To the extent market participants have identified situations where registration is needed, the process of generating the necessary documentation (and even submission to the relevant local registry) could be streamlined through the use of an electronic platform or automated system.

There are clearly huge benefits to be gained from a risk and legal compliance perspective by further automating the loan negotiation and execution process, as well as the data generated upon trading. That data can be applied to a broad array of processes, the most immediate of which is the broad and complex array of reporting requirements faced by market participants, both internal and external.

AS AT 30 JUNE 2019, ISLA REPORTED OVER €2.2 TRILLION OF SECURITIES ON LOAN GLOBALLY.

Securities Financing Transactions Regulation (SFTR)

SFTR aims to reduce perceived risks in the use of 'securities financing transactions' (SFTs), which includes securities loans.

The principal measures introduced by SFTR are:

i. reporting and record-keeping obligations in respect of SFTs (Article 4); and

ii. requirements for risk warnings and express prior consent for reuse of collateral (Article 15).

The majority of the provisions of SFTR entered into force on 12 January 2016. The reporting requirements apply from the following dates to the specified entity types (including, in each case, third country entities that would fall within the relevant category if established in the EU (if acting through an EU branch)):

> 14 April 2020 for investment firms and credit institutions

> 13 July 2020 for CCPs and central securities depositories

> 12 October 2020 for other financial counterparties

> 11 January 2021 for non-financial counterparties

The SFTR ITS sets out detailed requirements regarding the format and content of reports to be made pursuant to SFTR in order to increase harmonisation. The reporting obligation as a whole applies to the conclusion, modification or termination of an SFT and requires the report to be made within one working day – the detailed reporting fields in the SFTR ITS will require reports to be made, for example, where the details of the collateral are modified or the end-of-day market value of the securities lent/borrowed are adjusted. There is also a requirement for 'backloading' of transactions entered into before the reporting start date and still in force 180 days later.

What is achievable in the next 2-5 years?

Steps the industry could take in order to yield significant benefits over the next 2-5 years could include:

> The development of a common domain model to represent digitally the key features and life cycle events of transactions.

> Automating the process of SFTR report generation and loan data validation between market participants.

> Driving a reduction in complexity in systems integrations and translation through the adoption of common standards.

THERE ARE POTENTIALLY 155 DATA FIELDS TO BE COMPLETED IN AN SFTR REPORT.

Stage 4: Allocation

In the context of agency lending, the process by which the agent lender allocates the loan to one or more underlying principals (and how this is then communicated to the borrower) can be inefficient and slow. This typically involves the agent making the allocation and manually notifying the borrower once the allocation has taken place.

In the same way as trading, the step of allocating the trade has a number of important regulatory and legal considerations. In order to report under SFTR, which is required to be done on a T+1 basis, the identity of the underlying principal will need to be known within that timeframe. This information also feeds into the record-keeping requirements under SFTR. Allocation, and notifying the borrower of the details of the allocation, will need to take place at a speed that allows for reporting on that basis. Similar issues arise around delayed allocation of collateral amongst principals in the context of agency lending, which may also impact timely reporting under SFTR.

It will be important that access to allocation information is restricted where needed, and thought is given to how to maintain the necessary access controls in connection with this.

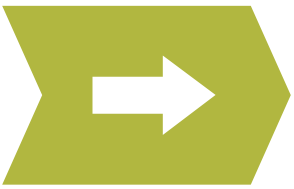
Similarly, checks of the loan against internal credit limits can often take place after trading or allocation, as the case may be. As a result, the longer the period for which the trade is unallocated, or for which the borrower is not aware of the identity of the underlying principal, the longer the period for which the trade is outstanding before it could be cancelled for exceeding relevant credit limits by the borrower. This serves to increase operational, liquidity and legal risks whilst it remains unallocated.

To the extent this period can be reduced, this would have the benefit of reducing exposure to all of these risks. Faster, or potentially instantaneous, processes in the context of allocation would also have a material beneficial effect from an operational perspective, including, for example, with regard to the generation of trade confirmations, the recognition of SSIs and trade reconciliation.

What is achievable in the next 2-5 years?

Steps the industry could take in order to yield significant benefits over the next 2-5 years could include:

> Developing automatic systems which provide feedback to borrowers on allocation on as close to an instantaneous basis as possible.



Stage 5: Commencement

The delivery of the loaned securities and, potentially, collateral at the outset of a loan can again be a more manual process than is necessary, with processes and systems differing between market participants and issues arising where the securities to be delivered are not in fact available. Some market participants have also developed their own set of representations for this event – this brings with it additional complexity and costs, and the requirement to reconcile the mechanics of the event between counterparties.

It would be possible to develop a single, common digital representation of this event (as well as other life cycle events), which would feed off of data electronically captured through more integrated, standardised processes. It would also be beneficial to automate this process to the extent feasible, including the way in which market participants communicate between each other in relation to delivery requirements and timing, and calculation of the amount of securities to be delivered, as well as focusing on solutions to ensure the actual availability of the securities to be delivered.

Additional focus will be placed on this event once settlement fail cash penalties under CSDR come into force from 2020. These would also apply to a failure to settle at the commencement of a loan, assuming the loan is settled in an EU CSD. Automating delivery flows on the basis of a common digital standard, based on standardised data captured at the initial stages in the life cycle of the loan would greatly support the reduction of settlement fails. In particular, current processes for managing SSIs have been found to be a key cause of settlement failures, so to the extent these can be obtained upfront and refreshed in a centralised manner it would help to minimise at least one key basis.

In order to maximise settlement, there should also be greater focus on using existing functionality to improve settlement efficiencies, including mechanisms such as hold and release (where trades can pre-match but be held from settlement until all necessary processes are in place, including sourcing of the securities and collateral) or auto partial settlement (which would provide for the automatic partial settlement of matched instructions, using available inventory).

What is achievable in the next 2-5 years?

Steps the industry could take in order to yield significant benefits over the next 2-5 years could include:

> The development of a common domain model to represent digitally the key features and life cycle events of transactions.

> Increased use of existing market functionality which maximises settlement, including pre-matching.

Stage 6: Performance and life cycle events

Similarly, many of the processes which occur while a loan is outstanding can be manual in nature. This includes the payment of manufactured dividends, payment of securities lending fees, managing corporate actions and collateral management under the GMSLA. The manual way in which these processes are often run, and the lack of consistency in approach and systems between market participants and vendors, can create a need for reconciliation exercises, inefficient processes and time and cost to be incurred on managing the events in question. For example, in connection with corporate actions, issues have arisen around the fact that market participants do not follow identical booking procedures and timelines, with the result that matching breaks at trade repositories as part of SFTR reporting are likely e.g. due to the need to report the 'trade date' of the corporate action and different views taken as to what this is (although action has been taken to develop best practices and introduce greater consistency into this area).

As with the delivery of securities on the commencement of a loan, it would be possible to generate a common digital representation of each of these events which would apply across institutions and the market. The benefits of this would be significant – increasing interoperability between institutions and reducing the need to reconcile.

Connected to this would be the benefits associated with automating each of these processes where possible, in order to streamline each event and reduce the need for manual intervention. This would build on efforts to automate and coordinate the capture of data during the initial stages of the loan – this data could be utilised to feed into the back-office systems which manage these processes.

Consideration will, however, need to be given to whether the event in question is susceptible to automation and the benefits that could be derived from doing so.[8] With respect to corporate actions, there is great scope to streamline and automate how corporate actions are managed, both in terms of how market participants communicate in relation to these actions and the exercise of rights in connection with these corporate actions. Consideration could also be given to the process for monitoring when corporate actions arise in relation to the underlying securities. This would improve the speed at which rights in respect of corporate actions are exercised, or the speed at which the relevant payment is made, and reduce the need for resources and cost to be allocated to this stage of the process.

For some events, simply standardising the approach that market participants take to the event in question and determining best practices would be beneficial. For example, divergent practices exist in the market when it comes to the payment of manufactured dividends and the payment of securities lending fees – in terms of timing and the wider process. Best practices would help to streamline these payments – ensuring they take place on a quicker timescale will reduce the legal risks associated with the period prior to payment being made. In general, timely, effective and accurate management of life cycle events will be fundamental.

Again, regulatory requirements will create further urgency in the need to streamline and automate these processes where possible, in order to reduce the need for reconciliation between institutions and manual intervention. Reporting under SFTR is required in connection with any modification to the end-of-day market value of the securities lent or borrowed under an outstanding securities financing transaction, and any modification to the details of the collateral data. As a result, daily reporting under SFTR seems likely in connection with the processes that occur during the life of a typical loan.

8 The Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo), an advisory group set up to counsel the Eurosystem on issues relating to securities and collateral, has considered this issue in a recent report. See 'Potential use cases for innovative technologies in securities post-trading', AMI-SeCo (January 2019).

Also, reporting under SFTR is required in connection with a party's re-use of collateral – work is needed to find a streamlined and practical methodology to capture relevant data to calculate and report the re-use of collateral. As already noted, SFTR imposes strict requirements on market participants to report in a specific, harmonised format. This places the onus on market participants to ensure they have the systems in place to report on this basis. To the extent these processes can be streamlined and automated, this would also provide an ability to automatically generate updated transaction reports (which are consistent across the counterparties) for SFTR reporting purposes. The cost-saving benefits associated with this cannot be overstated, and the benefits for regulatory compliance are significant.

What is achievable in the next 2-5 years?

Steps the industry could take in order to yield significant benefits over the next 2–5 years could include:

> The development of a common domain model to represent digitally the key features and life cycle events of transactions.

> Consider processes and tools for automatically generating SFTR reports.

> Develop best practice guidelines to promote the timely, effective and accurate management of life cycle events.

Stage 7: Enforcement

Many of the issues and solutions identified with respect to Stage 6: Performance and life cycle events under a securities loan, apply equally to the use of enforcement processes under the GMSLA. Such processes can be manual in nature and there is a lack of consistency in approach and systems between market participants and vendors. As a result, time and cost are incurred managing such events and processes.

As with the delivery of securities on the commencement of a loan, and other life cycle events which arise during the life of a loan, it should be possible to generate a common digital representation of key events of default which would apply across institutions and the market. This would increase interoperability between institutions and reduce the need to reconcile.

As with Stage 6, consideration should also be given to the extent that automating processes in relation to events of default and enforcement would be beneficial, in order to reduce the need for manual intervention and the costs associated with this. This would again build on efforts to automate and coordinate the capture of data during the initial stages of the loan – this data could be utilised to feed into the back-office systems which manage these processes. Integrating different data platforms and systems could facilitate the collateral valuation process following an event of default, as data flows between systems could be made seamless and automatic. Data can be sourced automatically from linked platforms to determine the collateral value and the information obtained could, as part of the automated workflow, be fed into the system to calculate the close-out amount.

Thought will need to be given to the extent to which events of default are susceptible to automation. There is complexity built into the different ways in which the events of default in the GMSLA operate, and parties may adjust these events as part of their document negotiation. It would seem likely that certain aspects of the event of default process could be automated (e.g. whether a particular trigger has occurred, although certain triggers may be more judgment-based and difficult to automate), and it seems unlikely that market participants would want to lose their ability to positively decide whether to declare an event of default on the basis of the occurrence of the relevant trigger.

What is achievable in the next 2-5 years?

Steps the industry could take in order to yield significant benefits over the next 2-5 years could include:

> The development of a common domain model to represent digitally events of default.

Stage 8: Termination

As with the issues identified in Stage 5, the redelivery of loaned securities and collateral at the end of a loan can be a more manual process than is necessary, with differences in approach between market participants and issues arising around the availability of the securities in question. Failure to capture all necessary data at the outset of the loan, as well as the speed with which changes to data which arise during the life cycle of the loan are communicated to the counterparty and implemented, can lead to settlement fails. As noted earlier, issues relating to SSIs (including reflecting amendments to SSIs) is a key cause of settlement failures, and one which could be remedied by a centralised repository for this information which provides for an electronic, automatic update process. Apart from this, there are also a number of other issues that contribute to settlement fails in the context of loans, as described in the ISLA CSDR Working Group paper on CSDR: Settlement Discipline Impact to Securities Lending.

Again, settlement failure penalties under CSDR will be of great significance and to the extent captured data (which is electronic and consistent across institutions, removing the need for reconciliation) and automated processes can be utilised, this could result in decisive cost-saving benefits.

It would be possible to develop a single, common digital representation of this event, which would feed off of data electronically captured and stored through more integrated, standardised processes. In particular, the automation of currently manual recall and redelivery processes would represent a significant benefit to the industry.

Central Securities Depository Regulation (CSDR)

CSDR was put in place with the intention of establishing a common authorisation, supervision and regulatory framework for central securities depositories (CSDs) within the EU, as well as the harmonisation of the legal aspects of securities settlement.

CSDR contains three sets of measures which are intended to improve the safety of settlement:

i. securities must be in electronic book-entry form;

ii. the settlement date for transactions executed on a trading venue must be no later than T+2; and

iii. CSDs must monitor and facilitate transactions in order to prevent settlement failure and, if necessary, subject market participants who fail to deliver their securities to cash penalties and buy-in procedures.

CSDR is therefore of significant relevance for securities loans where securities settlement takes place through an EU CSD.

Requirement (iii) above in particular has the potential to result in material penalties for settlement fails in the context of securities loans – this requirement is expected to go-live in September 2020. There is an exemption from the mandatory buy-in scheme for SFTs which have a term of less than 30 business days.

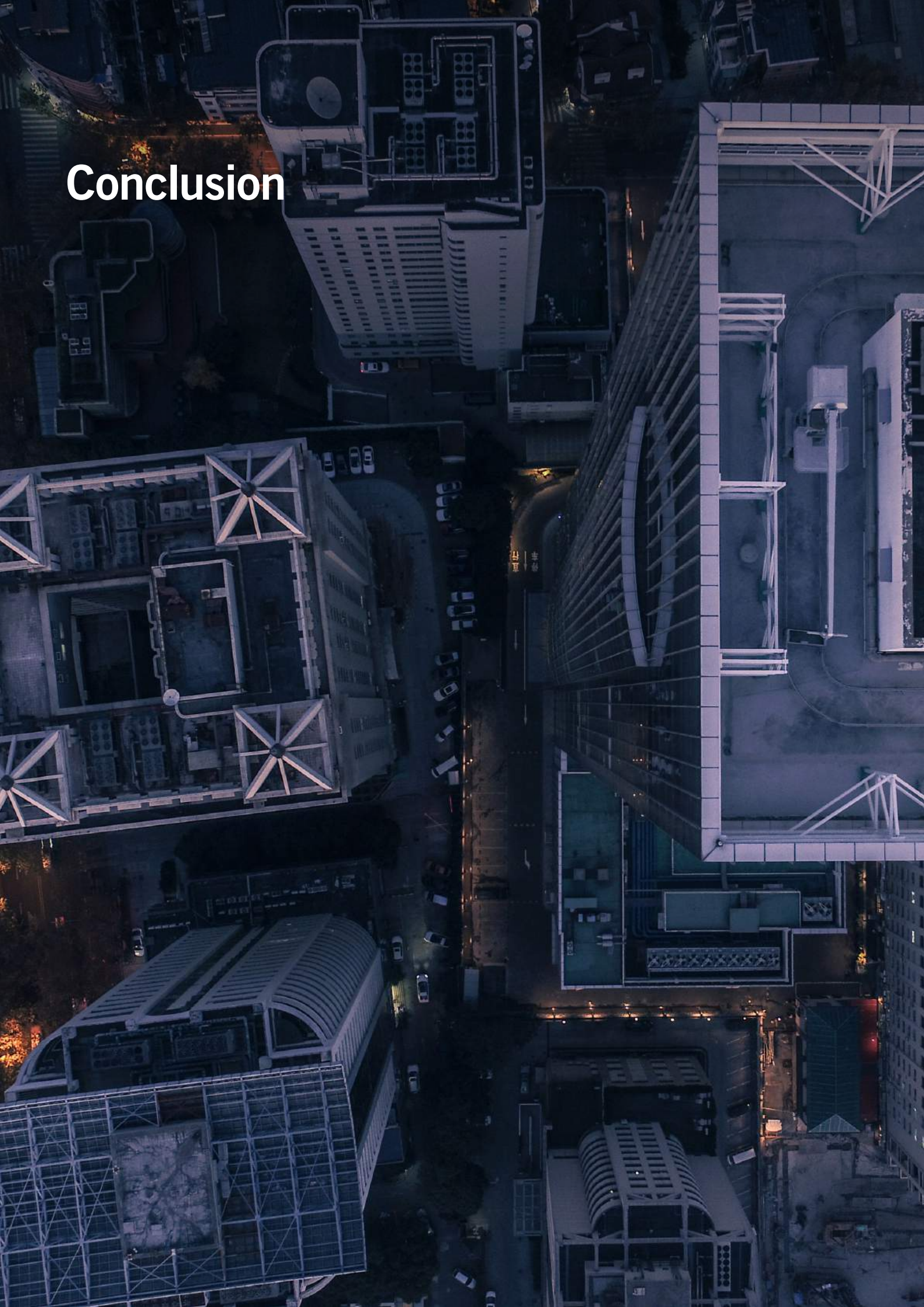
What is achievable in the next 2-5 years?

Steps the industry could take in order to yield significant benefits over the next 2-5 years could include:

> The development of a common domain model to represent digitally the termination of a loan.

> Consider solutions/vendors for the storage or reconciliation of SSIs.

Conclusion



We are excited to engage with ISLA members and the market more widely in relation to the issues and vision for the future of the industry.

As part of delivering on this vision for the future of the market, ISLA is creating a working group of market participants to drive and support the development of a common domain model (CDM) for the securities lending markets. Please contact the ISLA team for further information.

The contents of this white paper will be discussed as part of ISLA's 10th Annual Post Trade conference on 1 October 2019. Details can be found at: https://www.isla.co.uk/isla-events/islas-10th-annual-post-trade-conference/home/

A COMMON DOMAIN MODEL IS THE FOUNDATION OF THE DEVELOPMENT OF SOLUTIONS THAT ARE SCALABLE, EFFICIENT AND THAT FUTURE-PROOF OUR MARKET.

Glossary

"**AML**" means applicable anti-money laundering requirements.

"**BRRD**" means the Bank Recovery and Resolution Directive – Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

"**CSDR**" means the Central Securities Depository Regulation – Regulation (EU) No 909/2014 of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories.

"**FCD**" means the Financial Collateral Directive – Directive 2002/47/EC of 6 June 2002 on financial collateral arrangements.

"**ISDA**" means the International Swaps and Derivatives Association, Inc.

"**KYC**" means applicable 'know-your-customer' requirements.

"**SFTR**" means the Securities Financing Transactions Regulation – Regulation (EU) 2015/2365 of 25 November 2015.

"**SFTR ITS**" means Commission Implementing Regulation (EU) 2019/363 of 13 December 2018 laying down the implementation of technical standards with regard to the format and frequency of reports on the details of securities financing transactions (SFTs) to trade repositories.

"**SSIs**" means standard settlement instructions.

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About ISLA

Who are we?

International Securities Lending Association (ISLA) is a leading industry association, representing the common interests of securities lending and financing market participants across Europe, Middle East and Africa. Its geographically diverse membership of over 155 firms, includes institutional investors, asset managers, custodial banks, prime brokers and service providers.

What do we do?

Working closely with the global industry as well as regulators and policy makers, ISLA advocates the importance of securities lending to the broader financial services industry. ISLA supports the development of a safe and efficient framework for the industry, by playing a pivotal role in promoting market best practice, amongst other things. ISLA sponsors the Global Market Securities Lending Agreement (GMSLA) and the annual enforceability review in over 65 jurisdictions globally.

How do we do it?

Through member working groups, industry guidance, consultations and first-class events and education, ISLA helps to steer the direction of the industry and is one of its most influential voices on the European and global stage.

About Linklaters

Linklaters is a leading global law firm, supporting and investing in the future of our clients wherever they do business. We combine legal expertise with a collaborative and innovative approach to help clients navigate constantly evolving markets and regulatory environments, pursuing opportunities and managing risk worldwide.

Our 5,400 people, of which almost half are lawyers, are located across 30 offices in 20 countries. In order to offer our clients the highest quality advice, our lawyers across three divisions; Corporate, Dispute Resolution and Finance and Projects, specialise in industry sectors as well as practice areas.

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