



## Securities Lending Best Practice

# General

## Introduction

### Standards

Status: Under Review, Last updated: 28-01-2022

#### Standards

**Status:** Under Review, **Last Updated:** 28/01/2022

#### Standards

This handbook contains Best Practices for ISLA members relating to securities lending and associated collateral activities. The guidance provided by these practices has been proposed, drafted and validated through member interaction within the ISLA Market Practice Steering Group.

ISLA recommend the application of these practices by all members, unless bilaterally agreed, to promote the standardised interaction and lifecycle maintenance of securities lending activities. (IBP-102)

#### Process & Resolution

**Status:** Under Review, **Last Updated:** 28/01/2022

#### Process & Resolution

In the event of a dispute between parties, where Best Practice requires further clarification, ISLA member(s) should raise that disputed point through the procedure noted in 'Amendments' (IBP-331).

Any disputed issue(s) will be clarified and validated by consultation with the ISLA Market Practice Steering group. Any addition, edit or deletion will be reflected on the ISLA Best Practice handbook web page. (IBP-104)

## Amendments

Status: Under Review, Last updated: 28-01-2022

#### Amendments

**Status:** Under Review, **Last Updated:** 28/01/2022

#### Amendments

ISLA members may propose, add, edit or remove any existing practice upon request by emailing ISLA Regulation & Market Practice at [regtech@islaemea.org](mailto:regtech@islaemea.org) or other ISLA [contacts](#).

Requested amendments will be logged and presented to the ISLA Market Practice Steering Group for consideration and validation. (IBP-331)

## Legal

Status: Under Review, Last updated: 28-01-2022

### Precedent of Legal Agreement

**Status:** Under Review, **Last Updated:** 28/01/2022

### **Precedent of Legal Agreement**

This handbook 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.

The handbook is intended to be read in conjunction with the Global Master Securities Lending Agreement (GMSLA) or equivalent agreement.

In the event of a conflict between the handbook and the master agreement, the master agreement should prevail. (IBP-101)

## **Conduct**

Status: Under Review, Last updated: 28-01-2022

### **Conduct**

**Status:** Under Review, **Last Updated:** 28/01/2022

#### **Conduct**

ISLA member firms are domiciled in multiple jurisdictions which may have local codes of conduct specific to that jurisdiction. If a conflict exists between ISLA Best Practice and the local code, the code should prevail. 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. (IBP-103)

# Initial Operational Set-up

## Standard Settlement Instructions

### Storage

Status: Under Review, Last updated: 26-04-2021

**Status: Under Review, Last Updated: 26/04/2021**

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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. (IBP-105)

### New Funds/Entities

Status: Under Review, Last updated: 06-05-2020

**Status: Under Review, Last Updated: 06/05/2020**

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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. (IBP-106)

### Changes to Existing SSIs

Status: Under Review, Last updated: 06-05-2020

#### Notification

**Status: Under Review, Last Updated: 06/05/2020**

#### Notification

Where SSIs are maintained on a centralised vendor platform used to communicate and reconcile SSI between counterparts, any change to an SSI should generate instant notifications. That notification should contain a forward effective date of 30 days.

If SSI communication is not provided via vendor platform, the initiator of any SSI change should give at least 30 business days' notice via email or other agreed medium, such as SWIFT. That notification 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. (IBP-107)

#### SSI Standard

**Status: Under Review, Last Updated: 03/07/2020**

## SSI Standard

ISLA supports the use of ISO20022 Standing Settlement Instructions for Securities, Payments and FX which may be found [here](#).

The Best Practice Working Group noted that many market participants use vendor solutions to store and swap standard settlement instruction. Where this is the case, counterparts should determine which vendor solution their counterpart uses and ensure data is distributed in a timely manner.

(IBP-294)

## Authentication

Status: Under Review, Last updated: 06-05-2020

**Status: Under Review, Last Updated: 06/05/2020**

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Standard settlement instructions that are maintained in an SSI repository should be subject to reasonable verification controls. 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 by other means will be subject to the internal controls of each party. Standard settlement instructions that are input or amended manually should be subject to reasonable verification controls. 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. (IBP-108)

## Maintenance

Status: Under Review, Last updated: 06-05-2020

**Status: Under Review, Last Updated: 06/05/2020**

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All parties should reconcile standing settlement instructions no less than annually. (IBP-109)

## Disclosures

### Disclosures

Status: Under Review, Last updated: 07-08-2020

**Status: Under Review, Last Updated: 07/08/2020**

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

The following list represents an indicative grouping of data points which should be exchanged between new trading counterparts. It is recommended that notification procedures be arranged to ensure data is current in addition to a semi-annual review.

Please note that to support [SFTR](#), a counterparty questionnaire has been published by the SFTR Working Group that can be found under the heading of [Questionnaires](#)

- Governing E.g. legal documentation
- Collateral - E.g. schedule, type, margin, currency
- Markets to be traded - E.g. dividend rates, SSIs
- Billing - E.g. frequency, CCY, SSIs, margin
- Vendor platform functionality - E.g. contract compare, billing, returns, marks
- Marking - E.g. frequency, rounding
- Returns - E.g. return restrictions, cut-off times

Please note that some firms utilise vendor solutions to support many of the above data points. Counterparties should communicate their use of vendor platforms, or provide alternatives where one counterparty does not use the same platform. (IBP-110)

## Counterparty

Status: Under Review, Last updated: 28-01-2022

### Agent Lender Disclosure

Status: Under Review, Last Updated: 28/01/2022

#### Agent Lender Disclosure

Where one counterparty represents multiple legal entities, the underlying legal counterparty should be communicated to the other party either on initial negotiation or via an agreed disclosure process. That disclosure may need to be repeated on a daily basis in support of reallocation or regulatory obligations of one party. (IBP-297)

# Processes for Collateral

## Introduction

### General

Status: Under Review, Last updated: 15-01-2021

#### What is Collateral?

**Status:** Under Review, **Last Updated:** 15/01/2021

#### What is Collateral?

Collateral refers to securities, financial instruments, or transfers of currency provided by a borrower to a lender, based to the value of securities loans. The type of collateral that may be used to secure securities loan transaction(s) are typically defined between counterparts within the master agreement governing their trading relationship.

Many factors determine what is considered acceptable collateral, including such measuring factors include issuing country, credit rating, ESG, liquidity, concentration factors or simply availability of assets. It should also be noted that some parties may agree to securities lending activity without collateral, however this practice is outside the structure of the ISLA standard master agreement.

Where collateral is passed between parties, it is standard practice to define a Margin and/or Haircut to ensure the overall value of collateral received is greater than the value of the lent securities. (IBP-162)

#### Haircut

**Status:** Under Review, **Last Updated:** 15/01/2021

#### Haircut

Haircut is the practice of reducing that market value applied to collateral, effectively taking more collateral than the underlying loan(s) it is collateralising (IBP-320)

#### Margin

**Status:** Under Review, **Last Updated:** 15/01/2021

#### Margin

Margin is the practice of increasing loan market value for cash collateralised transactions. This increases the collateralisation of the loan(s). (IBP-321)

## Collateral Margin/Haircut Definitions & Calculations

### Collateral Methods

Status: Under Review, Last updated: 15-01-2021

#### Cash Rebate

**Status:** Under Review, **Last Updated:** 15/01/2021

## Cash Rebate

Where cash is provided as the collateral, there are two mechanisms for its transfer:

- 1) Delivery/Receipt Versus Payment (DVP or RVP) where the settlement of securities is simultaneous with the settlement of the cash.
- 2) Free Of Payment (FOP) also known as Delivery Versus Free (DVF) where the securities and collateral are transferred independently. On a closing loan, securities are returned which initiate a new collateral agreement.

Free of Payment (FOP) is the most common mechanism in EMEA markets, mostly in relation to equity securities lending.

In all cases, a rebate is provided by lender/cash receiver to borrower/cash provider based on a negotiated rate expressed in Basis Points (BPW) plus/minus a Benchmark rate. (See rebate calculation in the section [Accrued Income Calculation Method](#) (IBP-318))

## Cash Pool

**Status:** Under Review, **Last Updated:** 15/01/2021

### Cash Pool

Similar to a non-cash collateral mechanism, a cash pool is a single unlinked pool of cash between two parties to collateralise multiple stock loans.

It is recommended that the unlinked Cash Pool is used to collateralise multiple free of payment loans. The underlying loans should be flagged and identified as being versus Cash Pool so that the value of those loans, plus any margin, can be compared to the value of the Cash Pool. Any delta amounts should be moved daily, prior to cash cut-off, to clear any potential exposure.

Where multiple Cash Pool currencies are required, the underlying loan(s) should be booked with the same billing loan currency as the collateralising pool, and the value of each pool should be matched versus the value of those trades.

Cross currency exposure should be avoided or at least cleared the next business day if the cash cut-off time has been passed. (IBP-319)

### Standard Cash Pool

**Status:** Under Review, **Last Updated:** 15/01/2021

### Standard Cash Pool

A pooling of outstanding loan value resulting in a single collateral agreement and margin movement.

This approach is favoured by many firms for its process simplicity. (IBP-322)

## EU Cash Pool

**Status:** Under Review, **Last Updated:** 15/01/2021

### EU Cash Pool

Each loan is collateralised on individual basis, with all loan being marked-to-market daily, the net of those movements resulting in the collateral movement.

As this requires more processing, it is considered by many firms as non-standard. (IBP-323)



## **Non-Cash Bilateral**

**Status:** Under Review, **Last Updated:** 15/01/2021

### **Non-Cash Bilateral**

Collateral, in the form of securities/assets, is delivered by the borrower directly to the lender's account. The market value of the collateral is typically higher than the market valuation of the lent securities/assets.

When collateral is received under this type of arrangement, note that received collateral may be pooled or managed in a segregated/separate account structure.

This type of activity may also be related or similar to financing trades and/or be part of a negotiation where specific securities are provided as collateral versus the borrowed securities.

NOTE: The collateral taker may re-use the collateral (Rehypothecation) for other activities. Where the counterparts are governed by SFTR, there should be an exchange of documentation noting the re-use of collateral (See [SFTR Article 15](#)) (IBP-324)

## **Collateral Method- Receiver validating recd coll.**

Status: Under Review, Last updated: 15-01-2021

### **Non-Cash Triparty Agent**

**Status:** Under Review, **Last Updated:** 15/01/2021

### **Non-Cash Triparty Agent**

Collateral, in the form of securities/assets, is delivered by the borrower to a third party under a collateral arrangement with the lender.

Borrower and lender agree a daily collateralisation Required Value (RQV) which is then passed to a triparty agent. The triparty agent will then allocate the necessary appropriate securities/assets to the lenders (collateral takers) collateral account at the triparty agent. Both parties are then advised of the successful transfer through an agreed mechanism/function.

The collateral receiver should independently validate that the collateral is correctly valued and defined as eligible according to a pre-defined collateral schedule. Collateral giver should also validate/reconcile the valuation applied. (IBP-325)

## **Collateral Method outside GMSLA scope**

Status: Under Review, Last updated: 15-01-2021

### **Uncollateralised**

**Status:** Under Review, **Last Updated:** 15/01/2021

### **Uncollateralised**

Some counterparts lend without taking collateral, typically where a simultaneous borrow occurs with the same counterpart effectively nets exposure.

As this activity is not within the scope of the standard master agreement, it is not a recommended practice. (IBP-326)

# Calculation of Margin

Status: Under Review, Last updated: 14-12-2020

## Exposure Calculation

Status: Under Review, Last Updated: 14/12/2020

### Exposure Calculation

The calculation of exposure should follow the below formula:

If Collateral Type = Cash then

$\text{Loan Value} = ((\text{LoanQuantity} * \text{SecurityPrice}) * \text{Margin\%}) * \text{FXRate}$

If Collateral Type = Non-Cash then

$\text{Exposure} = \text{Loan Value} - ((\text{CollateralQuantity} * \text{SecurityPrice}) * \text{Haircut\%} * \text{FXRate})$

Note:

(a) Margin% may be dependent on factors such as asset class, credit rating, liquidity, loan ccy vs cash collateral currency. Margin% must be bilateral agreed.

(b) Margin% is not usually applied to non-cash collateralised transactions. However, it may be used in cases where Tri-Party agent applies Haircut% to collateral and cannot know factors such as cross currency exposure between loan & collateral

(c) FXRate should be previous close-of-business [see Asset Price](#)

(d) Please note the formula for billing [IBP-157](#) (IBP-163)

## Issuing Margin Call

Status: Under Review, Last updated: 12-02-2021

Status: Under Review, Last Updated: 12/02/2021

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

Each counterparty should agree the margin call bilaterally, prior to collateral instruction being issued.

In the case of a Margin Call Discrepancy refer to practice IBP-195 (IBP-166)

## Margin Deviations

Status: Under Review, Last updated: 12-02-2021

Status: Under Review, Last Updated: 12/02/2021

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In certain scenarios, events may occur that require margins to be re-agreed or altered.

It should be noted that any change of collateral or amendment to the schedule governing accepted collateral should be bilaterally agreed, with sufficient notice to implement any change. (IBP-164)

## Daily Collateral Process & Requirements

## Initial Collateral Calls

Status: Under Review, Last updated: 12-02-2021

**Status: Under Review, Last Updated: 12/02/2021**

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Counterparties should address exposure capture as early as possible to ensure that the proposal, agreement and resulting collateral instruction is completed in good time.

Please refer to IBP-189 for guide times.

Both counterparties should address any changes to exposure valuations as soon as is practicably possible. (IBP-168)

## Bilateral Arrangements

Status: Under Review, Last updated: 28-01-2022

**Status: Under Review, Last Updated: 28/01/2022**

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Collateral and subsequent trade leg should be agreed, instructed and delivered prior to the Delivery Versus Payment (DVP) cut-off of the related settlement market. The DVP deadline has been chosen for cut-off, being earlier than the Free of Payment (FOP) deadline. This earlier deadline then allows onward deliveries and sufficient tolerance to avoid any mandatory penalty or buy-in.

Ad-hoc or late agreement will be done on a best-efforts basis. (IBP-169)

## Bilateral Collateral Substitutions

Status: Under Review, Last updated: 23-02-2021

**Status: Under Review, Last Updated: 23/02/2021**

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It is recommended that the counterparties agree collateral substitutions in accordance with their collateral schedule(s) and in as timely a manner as possible, but no later than an hour before the earliest DVP market deadline. This earlier deadline then allows onward deliveries and sufficient tolerance to avoid any mandatory penalty or buy-in.

Collateral delivered as a substitution for collateral being withdrawn must adhere to the agreed eligibility schedule and be of sufficient value. (IBP-170)

## Prepay Collateral

Status: Under Review, Last updated: 09-03-2021

**Status: Under Review, Last Updated: 09/03/2021**

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Prepay is the collateralisation of a loan prior to the loan's settlement. The receipt of collateral before loan

settlement ensures that the lender covers any potential counterparty exposure(s) and that receipt typically triggering the release of any related loan instruction.

Collateral prepay may occur overnight, i.e., the day before loan settlement, but only if both parties agree to the resulting overnight exposure. It is also possible that parties may agree receipt of collateral on the same day as the loan settlement, providing collateral settles first.

Use of prior day prepay typically relates to mismatches between the respective settlement market of the collateral versus loan, or perhaps where one party does not have a physical presence in the local time-zone.

Where collateral is managed via a triparty arrangement, which may provide automation functionality, many market participants utilise vendor solutions to trigger an automated loan instruction release on successful receipt of collateral. (IBP-177)

## Instruction Release for Loans vs Cash

Status: Under Review, Last updated: 09-03-2021

**Status: Under Review, Last Updated: 09/03/2021**

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Where a trade is booked as a delivery-versus-payment (DVP) transaction, the trade instruction should be released immediately to the market. No holding of the instruction is required as the cash collateral will settle simultaneously with the loaned security.

For securities loans settled via a DVP instruction, where that cash represents the final collateral, the loan should be booked as a cash rebate transaction.

The ISLA Best Practice group discussed the management of cash pool transactions, where a securities loan is booked versus a fee and the cash element being a separate cash flow. It was agreed that DVP should not be used for cash pool trades due to the additional maintenance requirements and inherent risk of multiple cash movements. (IBP-182)

## Loan is not Collateralized

Status: Under Review, Last updated: 09-03-2021

**Status: Under Review, Last Updated: 09/03/2021**

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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. (IBP-183)

## Agreement & Reconciliation of Tri-Party RQV's

### Agreement & Reconciliation of Tri-Party RQV's

Status: Under Review, Last updated: 07-08-2020

**Status: Under Review, Last Updated: 07/08/2020**

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Counterparties should address exposure capture as early as possible to ensure that the proposal, agreement and resulting instruction of Triparty Required Value (RQV) is completed in good time.

Timely agreement will allow lenders and borrowers sufficient time to not only collateralise settled positions but also identify any RQV or exposure differences (e.g. variation or pending activity) that require research and remediation.

In support of this, on a normal business day the following guide times should be observed:

- A 'Start of Day' RQV agreement process no later than 10:00 (UTC).
- Intraday RQV revisions on an 'on-demand' basis - triggered by either lender or borrower with the guide completion deadline of 14:00 UTC.
- An 'End of Day' RQV agreement process no later than 17:00 (UTC).  
Any internal deadlines should be clearly explained, communicated, and agreed bilaterally in advance of any trading activity. Should the agreed deadlines not met by either party, an escalation process should be triggered.

Use of a vendor solution may assist in instructing and resolving mismatched RQV, as such their use is encouraged.

Note: Times quoted are EMEA centric, firms in APAC and North America may have alternative deadlines.

General Expectations:

- The RQV exposure value must cover all agreed pending and outstanding positions
- The value of loans should be driven by the last available close-of-business (COB) price.
- Once an RQV has been bilaterally agreed, regardless of time (SOD/INTRADAY/EOD value), both parties should instruct that RQV to the correct Tri-Party agent within 30 minutes.
- If a Tri-Party RQV instruction is matched but not yet covered then a 'hand-off' to an alternative region should be supported where possible and bilaterally communicated. (IBP-189)

## Collateral Schedule Amendment

Status: Under Review, Last updated: 07-08-2020

**Status: Under Review, Last Updated: 07/08/2020**

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Any change to collateral schedules, including haircut or margin requirement, should be agreed between counterparties before being formally communicated to the triparty agent.

New or 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).

To ensure smooth adoption of collateral schedule changes, sufficient notice of at least 10 business days should be given by change initiator to their counterpart and any third party.

## Collateral Fails Management

### Collateral Fails Management

Status: Under Review, Last updated: 07-08-2020

**Status:** Under Review, **Last Updated:** 07/08/2020

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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

(c) on the termination of the Loan.

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

Overnight exposure should be avoided where possible. (IBP-192)

### On the Commencement of the Loan

Status: Under Review, Last updated: 07-08-2020

**Status:** Under Review, **Last Updated:** 07/08/2020

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Typically a collateral giver will undertake to deliver to, or deposit, collateral prior to close-of-business on an agreed date in order to cover any new loan. That agreed date may be the loan settlement date or prior date depending on type or location of the loan security.

If a collateral fails to be delivered, counterparts may agree to the provision of alternative collateral within standard market deadlines, dependant on the type of collateral.

If market deadlines for securities collateral are passed, parties should avoid any overnight exposure by holding back settlement of new loans. (IBP-193)

### During the Term of the Loan

Status: Under Review, Last updated: 09-03-2021

**Status:** Under Review, **Last Updated:** 09/03/2021

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Throughout the life of a LOAN vs. Non-Cash collateral, it is accepted that a borrower must collateralize a pending/settled position with appropriate, eligible assets that meet the parameters of the associated collateral schedule AND collateralize the loan to the required margin level.

In situations where a loan or loan book is under-collateralized, based on last available COB pricing, the collateral taker should initiate a request or a call for additional collateral to be agreed, instructed, and

settled that day.

Start-of-day collateral requests or calls should be initiated as early as possible in the business day. Additional intraday and EOD movements should be supported on- demand - but no later than the settlement cycle of the related market.

If a Borrower needs to recall a Non-Cash collateral position, then a substitution must be arranged and settled before the recalled security can be released.

All Non-Cash collateral activity should be proactively monitored by both parties and should settle on the same day it is agreed and instructed.

If a collateral movement is failing, then there may be a need to cancel/renege/replace/reinstruct the collateral.

Failure to settle collateral 'on-time' may lead to business escalation AND a delay in new loan activity being committed to market.

End of Day exposure may result in regulatory communication. (IBP-194)

## Collateral Agreement & Discrepancy Resolution

### Collateral Agreement & Discrepancy Resolution

Status: Under Review, Last updated: 09-03-2021

**Status:** Under Review, **Last Updated:** 09/03/2021

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Collateral or Exposure Management disputes between lender and borrower are typically caused by loan or collateral pricing differences, an unrecognised position or a settlement exception. In the event of such a dispute, both parties should take equal ownership and commit to proactive investigation and communication intraday.

It is recommended that vendor platforms that identify contract/collateral compare exceptions should be assessed as a priority, to rule out 'aged' exceptions as a cause of discrepancy.

- New Loan activity should be carefully reviewed and pre-matched.
- Loan Return settlement activity should be carefully reconciled.
- Any exceptions should be bilaterally flagged for urgent review.

If the dispute remains unresolved, and where vendor platforms are not available, both parties should produce and compare an intraday report of data that presents:

- All open/pending loan positions for the specific 'loan book' inclusive of current price utilized and margin level applied.
- All settled collateral positions held for the specific 'loan book' inclusive of current price utilized.
- A clear exposure calculation based on loan value inclusive of margin vs. collateral value held.  
Any exceptions should be bilaterally flagged for urgent review.

It is the responsibility of both parties to escalate unresolved disputes according to internal intraday and end-of-day procedures.

If the dispute results in the lender believing that they are exposed and short of collateral then new loan activity is at risk and may be withheld or subject to cancellation. Impacted or at risk loans should be clearly communicated to the borrower. (IBP-195)



# Processes for Loans

## Trade Matching & Confirmation

### Trade Matching

Status: Under Review, Last updated: 09-11-2020

**Status: Under Review, Last Updated: 09/11/2020**

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The process of trade matching is intended to ensure that transactions, once input into the security settlement system (SSS) at a CSD or ICSD, do not fail to settle because of instruction mismatches.

It is not recommended that counterparties rely purely on trade matching at the SSS for verification of the terms of transactions, as this usually reduces the available time to correct mistakes or resolve disagreement. This in turn may lead to an unexpected build-up of risk.

Once a transaction negotiation concludes, counterparties should promptly verify the terms of the transaction, through trade confirmation and response, prior to input to respective security settlement systems. This procedure will mitigate the risk of trade mismatches and avoid trades being set up with economic differences.

It is recommended that a market vendor is utilised for such trade matching, and that the counterparties to the trade send files to the vendor for comparison at least every 15 minutes, thus allowing pre-matching to occur as soon as possible. The data sent to the vendor should contain all relevant fields for comparison, including the SSIs such that they can also be compared prior to the CSD/ICSD. See [IBP-153](#) for more information on contract compare. (IBP-118)

### Confirmation

Status: Under Review, Last updated: 07-08-2020

**Status: Under Review, Last Updated: 07/08/2020**

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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.

For further information regarding notifications, please see [Chapter 'Processes for Loans' Section 'Notifications'](#)

(IBP-119)

# New Loan Booking

Status: Under Review, Last updated: 07-08-2020

## Timestamp

**Status:** Under Review, **Last Updated:** 07/08/2020

## Timestamp

To support SFTR reporting, it is recommended that both parties to a transaction book a new loan within one hour of its negotiation. See <https://www.islaemea.org/isla-best-practice-handbook/subsection/SFTR-32/> target="\_blank">Execution Timestamp (Field 2.12) and [Execution Timestamp \(Voice Trades\) Booking Practices](#) (IBP-296)

# Fields

Status: Under Review, Last updated: 23-02-2021

## Trade Date

**Status:** Under Review, **Last Updated:** 23/02/2021

## Trade Date

The trade date for a new loan is the date the loan is negotiated.

For any loan returning activity, the Trade Date should be the date that closing action is notified by the initiating party.

Although market participants may then match counterparty instructions, to reduce settlement instruction mismatch, this practice should not be considered as market standard. (IBP-329)

# Settlement Disciplines

## System Updates for Settlement Information

Status: Under Review, Last updated: 25-08-2020

## Introduction

**Status:** Under Review, **Last Updated:** 25/08/2020

## Introduction

Many maintenance procedures, such as collateral or loan instruction release, are dependent on timely settlement status updates. Those status updates are in turn dependant on the turnaround of custodial networks, whose response times may vary by location or service provider.

To ensure the smooth operation of markets, it is reasonable to expect that both counterparts will have updated instructions and status within an hour of events. I.e. when settlement occurs, both parties' systems should reflect that status in an hour or less. (IBP-121)

## Opposing Settlement Information

Status: Under Review, Last updated: 07-08-2020

## Mismatch Resolution

**Status:** Under Review, **Last Updated:** 07/08/2020

### Mismatch Resolution

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. (IBP-122)

## Notifying a Counterparty Regarding Amended Status/ Valuations

**Status:** Under Review, **Last updated:** 07-08-2020

**Status:** Under Review, **Last Updated:** 07/08/2020

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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. (IBP-123)

## Best Effort Time Frames for Settlement

**Status:** Under Review, **Last updated:** 20-09-2020

### Transactions

**Status:** Under Review, **Last Updated:** 20/09/2020

### Transactions

Although best practice may recommend guide cut-off times, it is recognised that counterparts to a loan will want to retain a flexible approach. However, should notifications, instructions and settlement occur outside the recommended guide-times, parties should acknowledge that settlement will be on a best efforts basis.

It should also be noted that, to avoid any back-dating of activity, instructions should be processed/instructed on the date they are negotiated.

The guide-times for activity are therefore:

- New Loans - Should be instructed on trade date no later than 1 hour prior to the relevant market cut-off. Collateralisation of new loans will occur at different times relative to the trade and settlement. See the section "[Process for Collateral](#)" in this handbook for best practice timing.
- Returns - Notification of a loan return should be processed electronically and where possible via an electronic platform no later than 1 hour prior to the relevant market cut-off. (IBP-124)

### Back-dated Activity

**Status:** Under Review, **Last Updated:** 25/08/2020

## Back-dated Activity

Back dated trades may only be processed if permitted by each counterparty's internal policies and are agreed bilaterally.

Due to additional approval requirements for back dated trades, and potential for manual intervention, notification times should be agreed bilaterally between parties. (IBP-308)

## Partial Loan Close

Status: Under Review, Last updated: 28-01-2022

### Partial Loan Close

**Status:** Under Review, **Last Updated:** 28/01/2022

### Partial Loan Close

A Partial Loan Close is the return of some part of an existing stock loan. The remaining part of the original loan remains with the borrower.

Regarding the notification to partially close, and subsequent settlement instruction(s), both parties should communicate and instruct a delta quantity and value rather than a full close and re-opening of the remaining loan.

This practice aligns with SFTR Best Practices [[SFTR-337](#)]

“ Partial returns: should be reported with a MODI (reducing quantity). When the final value is fully returned, this should not be reflected by a MODI reducing the quantity to '0'. “ (IBP-330)

## Partial Deliveries

Status: Under Review, Last updated: 28-01-2022

### Auto Partial

**Status:** Under Review, **Last Updated:** 28/01/2022

### Auto Partial

Automatic Partial Settlement is a facility to settle incremental quantities of a failing transaction.

Auto-partial facilities should be applied by default for failing securities lending trades where its use does not disadvantage either party.

Parties may bilaterally agree to time or quantity limitations to provide sufficient opportunity to maintain collateral or other controls.

The T2S settlement system also provides Partial Hold Release functionality, and should be used as noted in [SMPG Market Practices](#). (IBP-125)

### Loans with Agent Lenders

**Status:** Under Review, **Last Updated:** 28/01/2022

### Loans with Agent Lenders

Loans with agent lenders that operate pooled lending services for beneficial owners may require an alternative approach in relation to partial deliveries.

The following use cases have been identified through working group discussion.

- New loan - If assets are sold by an underlying beneficial owner between loan execution and settlement, the agent will either reallocate to another beneficial owner/lender or bilaterally cancel the loan with the borrower,
- Loan close - If a borrower, after notifying a partial or full close-out, is no longer able to fulfil that delivery, the closing instruction may either be bilaterally cancelled, until sufficient asset(s) are available, or the parties may agree to manual process incremental settlements of the original instruction. The latter is particularly relevant where the agent lender has provided a recall notification. (IBP-307)

## Hold and Release

Status: Under Review, Last updated: 28-01-2022

### Hold & Release

**Status:** Under Review, **Last Updated:** 28/01/2022

#### Hold & Release

As part of CSDR, CSDs offer functionality to hold and release instructions, partially releasing increments of the original instruction. As this relates to securities lending, loan instructions would be input and flagged as 'HOLD' pending the receipt of collateral. This would allow pre-matching of instruction; however, it would bypass or complicate instruction chains that require assets move through complex custody arrangements. In some cases, it could also conflict with some firm's custody product offerings.

As of June 2021, many firms have not yet amended their technology platforms to implement this function. Consequently, this topic has been placed on hold by the Market Practice Steering Group pending future market developments. (IBP-333)

## Loan Pricing

### Asset Prices

Status: Under Review, Last updated: 20-09-2020

#### Price Source

**Status:** Under Review, **Last Updated:** 20/09/2020

#### Price Source

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: (IBP-127)

#### Close-of-Business (COB)

**Status:** Under Review, **Last Updated:** 20/09/2020

## Close-of-Business (COB)

As defined in the standard [Global Master Securities Lending Agreement \(2010\)](#), the price used for market valuation should be the last quoted close-of-business mid-price available from a reputable source chosen in good faith, unless otherwise agreed.

It is recognised that different markets may present close-of-business at different times. Therefore, as a guide:-

- EMEA and Americas market prices will typically be prior days close of business price.
- APAC market prices will typically be same day. (IBP-128)

## Exceptional Pricing

**Status:** Under Review, **Last Updated:** 20/09/2020

### Exceptional Pricing

Where both parties agree there has been an exceptional movement in the price of the asset in question since previous close-of-business, the latest available price should be used. (IBP-309)

## Foreign Exchange Rates

**Status:** Under Review, **Last Updated:** 20/09/2020

### Foreign Exchange Rates

Where the price is in a currency other than the base currency, the price should be converted into the base currency using the last close-of-business spot rate.

In the event of a dispute around spot FX rates, the rate should be obtained using the default BGN. Bloomberg FX Generic source taking the number of decimal places displayed on the screen (i.e. 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. (IBP-129)

## CREST

**Status:** Under Review, **Last Updated:** 20/09/2020

### CREST

For UK assets, both bonds and equities, the CREST closing prices will supersede all other price sources including Bloomberg and Reuters. (IBP-310)

# Notifications

## Notification ACK/NACK

**Status:** Under Review, **Last updated:** 28-01-2022

## Introduction

**Status:** Under Review, **Last Updated:** 28/01/2022

### Introduction

Many market participants observe 'notify' or 'call-in' procedures to advise their counterpart of a new, close, or amending transaction. The process is often manual and may duplicate systemic processes.

Where possible, it is recommended that automated notifications and ACK/NACK responses are utilised. (IBP-133)

## New or Close

Status: Under Review, Last updated: 06-10-2020

### Response

**Status:** Under Review, **Last Updated:** 06/10/2020

### Response

On receipt of a notification, the receiving party should provide an acknowledgement (ACK) within an hour in support of the one-hour timestamp SFTR validation rule.

See [SFTR 'Execution Timestamp'](#) (IBP-135)

### Vendors

**Status:** For Review, **Last Updated:** 28/01/2022

### Vendors

The use of vendor platforms or other automated processes are recommended where possible for trade notifications between parties. In either case, it is strongly recommended that counterparts notify each other of the preferred platform, and any related functionality that may be associated with it (e.g. timings, formats, etc.).

Functional features may include loan and/or collateral reconciliation, trade notification(s) and regulatory reporting obligations.

Counterparties should adopt a procedure to both notify of any change and reconcile these preferred functions/limitation on a regular basis to avoid any disruptions to communication. (IBP-136)

## Returns

Status: Under Review, Last updated: 06-10-2020

### Notification Template

**Status:** Under Review, **Last Updated:** 06/10/2020

### Notification Template

If use of a vendor platform is not available, counterparties should use the standard template detailed on Chapter 4, page 11 of the [CSDR: Settlement Discipline Impact to Securities Lending \(Sep 2019\)](#). (IBP-138)

### Partial Close & Claims

**Status:** Under Review, **Last Updated:** 06/10/2020

## Partial Close & Claims

Partial settlement can be requested within market deadlines following receipt of shares or notification that the recall recipient is insufficient to deliver. Where this is the case, it is recommended that both parties partially settle wherever possible to reduce exposure to potential claims or fines.  
(IBP-316)

## Loan Recall to buy-in/close out - flow

Status: Under Review, Last updated: 28-01-2022

### Loan Recall

**Status:** Under Review, **Last Updated:** 28/01/2022

### Loan Recall

The following process provides the steps and flow for a recall that ends in buy-in/close-out.

- Lender issues recall notification to borrower stating ISIN, Quantity and Settlement Date.
- Notification should be received by the borrower at the latest one hour prior to the close of relevant market/exchange minus two business days or, if greater, the standard settlement cycle of the relevant market/exchange to allow satisfactory settlement.
- The lender should include any further relevant information that might influence the criticality of settlement or sensitivity of timing.
- Borrower to respond with ACK/NACK, confirming settlement date(s) and quantity.
- In line with standard practice, automated solutions are preferred to ensure timely notification and acknowledgement(s)
- Return instruction(s) should be agreed and booked in good time for the relevant settlement cycle.
- It is noted that many securities lending parties can instruct within the standard settlement cycle, that being less than or equal to the standard market settlement cycle. If this is the intended arrangement, it should be bilaterally agreed.
- Should the instruction fail to settle, or borrower fail to respond to the recall notification, lender should calculate and communicate related costs to borrower (see GMSLA 9.3 Failure by either Party to deliver)
- Communication of cost should include SSI
- Costs should be paid within one business day of the claim/notification (GMSLA 9.3.b)



- On receipt of costs, the outstanding loan should be closed, and any collateral related to that loan returned to the borrower. (IBP-328)

## Sale Notifications

Status: Under Review, Last updated: 28-01-2022

### Sale Notifications

**Status:** Under Review, **Last Updated:** 28/01/2022

### Sale Notifications

Although best practice may recommend guide cut-off times, it is recognised that counterparts to a loan will want to retain a flexible approach. However, should notifications, instructions and settlement occur outside the recommended guide-times, parties should acknowledge that settlement will be on a best-efforts basis.

It should also be noted that to avoid any backdating of activity, instructions should be processed/instructed on the date they are negotiated.

The recommended cut-off times are therefore:

**New Loans** - Should be instructed on trade date, no later than 1 hour prior to the relevant market cut-off. Collateralisation of new loans will occur at different times relative to the trade and settlement. See the section "[Processes for Collateral](#)" in the ISLA handbook for best practice timing.

**Returns** - Notification of a loan return should be processed electronically and where possible via an electronic platform, no later than 1 hour prior to the relevant market cut-off. (IBP-339)

## Mark to Market Disciplines

### Mark to Market Loans

Status: Under Review, Last updated: 06-05-2020

**Status:** Under Review, **Last Updated:** 06/05/2020

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Loans should be re-priced every day 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.

For further information, see Best Practices See IBP-128, IBP-309, IBP-129, IBP-130 (IBP-130)

## Late/Failed Settlement Claim Process

### Claims as a Result of Penalties & Fines

Status: Under Review, Last updated: 06-10-2020

### Partial Close & Claims

**Status:** Under Review, **Last Updated:** 06/10/2020

### **Partial Close & Claims**

Counterparties should endeavour to settle partial sales of stock wherever possible (see IBP-307), and 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.

It should be noted that in some markets, additional charges may be incurred for late settlements. Where these charges are incurred due to a failing recall, the failing party is liable. Equally if overdrafts are incurred the impacted party may consider raising a claim for any costs from the failing party. (IBP-140)

## **Claims Issuance & Settlement**

**Status:** Under Review, **Last updated:** 28-01-2022

### **Issuance & Tolerance**

**Status:** Under Review, **Last Updated:** 28/01/2022

#### **Issuance & Tolerance**

For CSDR, counterparties should issue their claim(s) within 30 calendar days from the CSD penalty issuance. Please note that the proposed deadlines for CSDR triggered claims may be amended as the process matures.

For non-CSDR related claims, counterparties should issue their claim(s) within a maximum of 60 days from the claim inception date for example, the final settlement of a sale that triggered a recall.

It is recommended that one claim is raised per instruction. Claims should only be initiated when actual settlement has occurred.

The recommended minimum claim is 500 EUR or equivalent per instruction, or lower if bilaterally agreed (prior to activity). Parties may also agree consolidation of multiple failing transactions to pass a 500 EUR threshold. For example, if a penalty for a failing instruction is below the value of 500 EUR however, it fails for a number of days and the total cost of the penalty > EUR 500, this would be considered a reasonable claim.

The receiving party must endeavour to pay the claim within 30 days where possible and within a maximum of 60 days, from the CSD penalty issuance.

Claims should be sent electronically or via e-mail, preferably in PDF format, with signature. The recipient should acknowledge receipt of the claim within 24 hours.

Once the claim has been agreed by both trading parties, payment should be made within 5 business days. The claim issuer must confirm receipt of payment to formally close the claim.

The claim issuer should provide the following information:

- Claim Initiator Name and BIC
- Trade Date of failing instruction
- Intended Settlement Date

- Actual Settlement Date
- Security ID (ISIN) and Description
- Quantity
- Cash Currency & Value - Settlement value or recall value
- Claim Reference - PCOM or other relevant reference
- Claim Calculation (i.e., cash value, interest rate, No. of days of failing instruction)
- Claim/Penalty Currency
- Claim/Penalty Amount
- Reason for claim
- Payment Details - SSI's (IBP-141)

## CSDR Penalties

Status: Under Review, Last updated: 28-01-2022

### Local Penalties

**Status:** Under Review, **Last Updated:** 28/01/2022

#### Local Penalties

It is recognised that various markets include Settlement Penalty regimes, which may result in a credit or debit upon settlement failure.

Each party to a failing trade that triggers such penalties must be aware and responsible for related accounting of the penalty in addition to associated regulatory adherence and pass-on processes appropriate for that market. (IBP-335)

## Netting of Claims

Status: Under Review, Last updated: 28-01-2022

### Netting of Claims

**Status:** Under Review, **Last Updated:** 28/01/2022

#### Netting of Claims

Regarding a single failing event, claiming parties should incorporate and consider relevant credits and debits that may apply for each failing instruction.

Regarding total claims between parties, where applicable, parties should agree a net settlement (i.e., a single cash flow to resolve multiple claims within the same penalty period).

It is the objective of CSDR to penalise the failing party to the trade to promote more efficient settlement across EU capital markets and therefore, claims as a result of this, should not unduly enrich either party. (IBP-340)

# Reconciliations & Contract Compare

## Reconciliations

Status: Under Review, Last updated: 09-11-2020

### Contract Compare

Status: Under Review, Last Updated: 09/11/2020

#### Contract Compare

Contract Compare is a procedural function in which counterparts to outstanding lending transactions reconcile those outstanding (open) contracts. Most market participants utilise on-line tools provided by market vendors,

Contract comparisons may be performed against multiple aspects of outstanding loan and collateral positions, which will improve settlement and future billing processes. It should be noted that this practice is distinct from the [notification](#) communication(s) between counterparts for lifecycle events.

Contract Compare field composition and applied tolerance levels are agreed between the two parties. However, both parties should take into account any related regulatory obligations or responsibilities, such as [SFTR](#) that may influence the number and scope of data points reconciled.

ISLA supports the use of automated vendor solutions for reconciliation and contract compare practices. (IBP-153)

#### Data Frequency & Content

Status: Under Review, Last Updated: 09/11/2020

#### Data Frequency & Content

Data should be transmitted between counterparties, or their preferred market vendor, at least once a day preferably at each close-of-business (COB), by both counterparties.

The data elements present in the data set should be agreed by both parties, including what tolerance of pairing/matching is appropriate.

On completion of a reconciliation, agreed methods of communication, analysis, investigation and escalation should be applied.

Please note that all the above functions may be supported by a mutual vendor platform or should be agreed bilaterally. (IBP-155)

## Billing Statements & Processes

### Billing

Status: Under Review, Last updated: 09-11-2020

#### Introduction

Status: Under Review, Last Updated: 09/11/2020

## Introduction

The collection of income for lending securities is managed through a process commonly referred to as billing. (IBP-157)

## Delivery

**Status:** Under Review, **Last Updated:** 09/11/2020

## Delivery

Where counterparts agree to use a vendor platform, the vendor will advise on content and format to be supplied.

Where the party supplying details does not use a vendor, see [ISLA Best Practice Billing format July 2009.pdf](#). (IBP-156)

## Discrepancy Reconciliation

**Status:** Under Review, **Last Updated:** 23/11/2020

## Discrepancy Reconciliation

Counterparts should reconcile billing invoices in a timely manner to identify any issues requiring remediation. Any identified issues should be communicated to the other counterpart, detailing the issue and supporting data to explain and propose a correction. Counterparts, as part of their on-boarding process, should have clear escalation pathways should timely remediation not be possible.

It is also recommended that, during the reconciliation process, if both parties are using a market vendor tool, the functionality offered by that vendor should be fully utilised.

For example, use of comment functionality will greatly improve any required remediation. (IBP-160)

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