



International Securities Lending Association (ISLA) Operations Market Best Practice Committee

**STATEMENT OF MARKET GUIDANCE:
MARK-TO-MARKET FOR EQUITY LOANS**

Background

The Securities Lending industry faces a constant source of operational friction and frustration around accurate pricing within the Mark-to-Market process. The differing sources and timing of prices and foreign exchange rates between market participants lie at the centre of this issue.

Currently there are no industry-wide agreed parameters inside which all market counterparties agree to operate. Whilst it would be impractical to make all participants agree to one common pricing source, this document represents an attempt to establish a reference point around which to establish best practices and guidelines for new and existing counterparties within the industry.

It should be noted that this paper does not seek to override any existing contractual obligations agreed between parties in their lending agreements but instead seeks to outline PRACTICAL operational best practice measures for the Securities Lending community

Recommendations

Following lengthy and detailed analysis from both the lending and borrowing sides of the community, the Best Practice Committee would like to make the following recommendations:

- Borrower capability to match lender pricing source within suitable margins thereby negating current pricing source discrepancies.
- Whilst recognizing each institutions 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 dispute.
- Wherever possible the following marked prices should be taken:
 - US – Close of business previous day
 - UK/Europe – Close of business previous day
 - Asia Pacific – Close of business same day
- Where appropriate prices should be rounded UP to the nearest cent.

- Additionally the **RBS Fix** available on Bloomberg (RBSQ<GO>) and Reuters (RBSFIXINDEX) is recommended as a final arbitrating source in any resultant FX rate dispute.
- Daily marking on ALL books for exposure purposes with daily contract repricing for billing purposes.
- EXCLUSION from the daily marks process of ALL pending returns due to settle same day or prior. Future dated returns to be INCLUDED.
- Adoption and effective utilization of automated marks / exposure management platforms.
- Utilization and refinement of bi-lateral tolerances for cashpool / non-cash trades.

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