



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

STATEMENT OF MARKET GUIDANCE: BILLING COMPARE (*International and Domestic*)

Background

Billing Comparison is a monthly process which is done either manually or automated by using one of the available vendor tools.

Both Borrower and Lender need to manage an automated billing compare process actively to maximize operational efficiency and timeliness of closing bills while mitigating risk.

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.

Issue(s):

There are a number of issues around current billing delivery, reconciliation and payment of monthly bills;

1. Late delivery of monthly statements
2. Manual reconciliation process
3. Both parties not carrying out reconciliation
4. Counterparties not wanting to pay partially until bill completely reconciled
5. Unwilling to pay bills, due to other outstanding claims, such as dividends / coupons.

Recommendation(s):

Billing Delivery

The proposed method of billing delivery and reconciliation should be an automated reconciliation tool. Counterparties are recommended to deliver their statements by the 2nd business day into the new month or earlier. This allows for 1 business day for any prior month adjustments.

If the counterparty is not using an automated reconciliation tool to deliver their statements, each company needs to stipulate by what form of delivery they prefer to receive their statement i.e. encrypted e-mail, fax, post – until such time they can start to use an automated reconciliation tool.

Billing Reconciliation

Using an automated reconciliation tool allows users to view and retrieve their monthly statements and will highlight those securities, underlying deals, break types and dates where there are discrepancies. This allows ends users to see larger-value discrepancies and start reconciliation of those items before smaller-value discrepancies.

Where borrower and lenders are using an automated reconciliation tool, they need to add comments actively and assign discrepancies accordingly. Borrower and lender should demonstrate active participation in resolving all reconciliation issues, whether or not they are using an automated tool.

Billing Payment

Payment of the bill should be made as soon as possible after the receipt of the counterparty's statement. Both the borrower and lender should aim to clear all billing by the 10th business date of the month at latest wherever possible. If the billing relates to an exclusive account, then it should typically be possible for billing to be paid by the 5th business date of the month unless agreed otherwise between the parties. In a best practice environment, there should be no billing outstanding at the end of the month to carry over. Furthermore, billing funds should never be offset or delayed by outstanding dividend or coupon claims.

If there are still discrepancies after the 15th business date of the month, both counterparties should open discussions with regards to a partial payment for the undisputed portion of the bill. Where partial payments are made, all information should be readily available until both borrower and lender have resolved the discrepancy, even if one of the counterparties no longer shows the bill as being open. Both sides should still work together to clear all balances before the end of the month in a best practice environment.

If a bill covers multiple currencies, then each currency should be treated separately with regards to billing payment. For example, if a bill covers EUR and USD, the EUR matches and the USD does not, then the EUR should be paid out without waiting for the USD to match.

Billing Claim of Funds

If a bill has no discrepancies, and the lender/borrower is still unwilling to pay the bill, then it is recommended that the lender/borrower may look to claim use of funds after the 15th business day of the month, depending on the terms of the legal agreement between the parties.

If the discrepancies on the bill have been resolved, the lender and borrower have agreed which was correct, and payment has still not been made 5 business days after this point in time, then it is recommended that a claim for a use of funds may be issued. Furthermore, if a partial payment has been agreed, and not paid after 5 days, then again a claim for use of funds may be issued.

Organisational Best Practice

It is suggested that an organisation have a qualified person/team that addresses all billing reconciliations, if the company size justifies this. A qualified person would be an individual with sufficient knowledge of internal processes and systems such that they are able to investigate the root causes of billing discrepancies in order to avoid reoccurrences. It is also suggested that including an element of contract compare in their daily workload would lead to a greater understanding of their clients, and lead to faster billing discrepancy resolution.

Furthermore, it is suggested that a senior manager should be accountable to review the outstanding differences, with a heightened focus on aged breaks and trends. The senior manager should ensure that the trends are addressed by (i) holding line managers accountable for team performance where breaks are a result of operational error, (ii) holding traders accountable for rate differences, (iii) ensuring that process procedures are amended when necessary, (iv) ensuring that system enhancements are prioritized and (v) working with counterparts that have a high error rate and reporting those counterparts to the relevant relationship manager.

Lenders and borrowers should exchange "contact lists" that also include successive points for escalation, that may ultimately land at the product head (also known as the 'business side') if the difference extends beyond a reasonable time.

SIFMA/RMA/ISLA Summary Statement of Market Guidance for Billing Compare

- It is recommended that billing statements should be communicated via automated reconciliation tools negating the need for individual hard copy claims.
 - In the absence of the above, a standard excel or PDF format communicated via encrypted e-mail is preferred.
- Statements should be sent and received by the 2nd business date of each new month.
- The utilization of automated reconciliation tools is recommended to reduce the amount of time taken to reconcile breaks.
- Reconciliation should be carried out proactively with relevant commentary supporting identified breaks.
- All supporting documentation of discrepancies should be sent to the counterparties via e-mail or through an automated platform, to confirm who is right/wrong.
- All billing amounts should be cleared by the 10th business day of the month, wherever possible.
- From the 15th business day of the month, partial payments of any outstanding unreconciled billing may be negotiated between counterparties.
- Each currency bill should be treated separately, and can be agreed and paid independently of other currency discrepancies.
- Claims for late settlement of full or partial bills should be agreed bilaterally.

ISLA
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