



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

### **STATEMENT OF MARKET GUIDANCE: EQUITY LOAN RETURNS AND RECALLS**

#### **Background**

This paper seeks to address some common areas of friction and frustration around recalls and the booking of returns of lent equities. While circumstances often requires bilateral agreement on acceptance and completion of recalls, this paper sets out some industry-agreed parameters within which ISLA recommends that market participants should operate.

**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 outlines practical operational guidance for Securities Lending market participants.**

The relevant sections of the Global Master Securities Lending Agreement (GMSLA) can be found at [www.isla.co.uk/industry\\_documentation.asp](http://www.isla.co.uk/industry_documentation.asp).

#### **Automation**

Automation via vendor platforms is recommended for all recalls and all returns.

#### **Issuance of recalls**

Recalls should be issued either via email, Bloomberg or vendor platforms to the bilaterally-agreed party prior to 4pm GMT/ BST. These should be acknowledged within 3 hours, or by 5pm GMT/ BST, whichever is soonest.

All recalls should be issued in accordance with market cycles (the current position is summarised in the Appendix).

Lenders should not book returns to cover recalls until the return is called in.

It is desirable to issue recalls to a counterparty's office where traded eg. Far Eastern recalls issued to a Far Eastern office, European recalls to a Europe office etc. In the event that this is not possible, recalls issued within the time zone must be honoured with the Lender's trade date.

Borrowers should endeavour to return recall stock within the DVP settlement cycle on the day of settlement.

### **Recalls outside of market cycles**

If any recall needs to be issued outside market cycles then the lender should verbally instruct the borrower and subsequently provide confirmation via agreed communication method.

In this situation the term '**best or reasonable efforts**' is taken to mean that the borrower will utilise every reasonable option to return the stock to the lender earlier than market cycle, however they have no contractual obligation under the GMSLA to deliver earlier than the standard settlement time.

### **Claims as a result of sale fails**

Lenders should endeavour to settle partial sales of stock wherever possible.

Borrowers will only be liable for 'sale fail' costs for the portion of the sale where they are holding stock as long as partial can be requested within market deadlines following receipt of shares or notification that the borrower is insufficient.

Lenders should aim to issue claims within 30 days but within a maximum of 60 days of the settlement of the sale. The recommended minimum claim is 500 USD or equivalent, **or as bilaterally agreed**. The borrower must then endeavour to pay the claim within the same time frames of 30 days where possible and within a maximum of 60 days.

Lenders should provide the following information on claims:

Date, time and the name of the borrower contact to whom the recall was issued

Trade and settlement date of recall

Actual settlement date of recall

Security ID and description of the stock

Quantity recalled

Cash amount of recall (based on sale price)

Claim calculation (i.e. cash amount of recall\*interest rate\*days of fail/100/360 or 365 depending on market)

Reason for claim

Payment instructions

## **Booking returns**

Borrowers should issue returns for next day settlement prior to 4pm GMT, with email an acceptable method of communication in the absence of automation. Returns received after 4pm will be booked on a 'best efforts' basis. Any trade date discrepancies as a result of returns being called in late must be resolved bilaterally.

Lenders should then ensure that all returns for next-day value are prioritised and have been booked, with email confirmation to the borrower within 5 hours of receipt or prior to 6pm if called in before 4pm, whichever is soonest, to allow for settlement instructions to be received by the agent.

Any return bookings confirmed but not booked by the lender and therefore causing a subsequent fail should be booked as soon as possible with matching details to the original call-in notification. Any differences must be communicated by the lender.

Same-day returns will be handled on a best efforts basis by the lender.

The following information should be present on return requests:

- Borrower name
- Sedol/ Cusip/ ISIN
- Security description
- Quantity to be returned
- Rebate rate or fee
- Dividend rate
- Trade date
- Settlement date
- Collateral type
- Exclusive account if known
- DVP or FOP
- Cash amount (if DVP or RVP)

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**Appendix: Standard Recall periods per market (as at December 2008)**

<b>Country</b>	<b>Recall Period</b>	<b>Comments</b>
Australia	T+3	
Austria	T+3	
Belgium	T+3	
Canada	T+3	
Czech	T+3	
Denmark	T+3	
Euroclear	T+2	
Finland	T+3	
France	T+3	
Germany	T+2	
Greece	T+3	
Hong Kong	T+2	
Hungary	T+3	
Italy	T+3	
Japan	T+3	
Korea	T+2	
Mexico	T+2	
Netherlands	T+3	
New Zealand	T+3	
Norway	T+3	
Poland	T+3	
Singapore	T+3	
South Africa	T+5	
Spain	T+3	
Sweden	T+3	
Switzerland	T+3	
Thailand	T+3	Recall full loans
United Kingdom	T+3	Same day for Fixed Income, T+3 Equity
Turkey	T+3	
U.S.	T+2	