



ISLA CONSULTS ON CHANGES TO SECURITIES LENDING MASTER AGREEMENT

1. The International Securities Lending Association (ISLA) has today published a draft, amended version of the Global Master Securities Lending Agreement (GMSLA) for public consultation. The GMSLA was originally published by ISLA in 2000 and has been adopted by many market participants in Europe and Asia to govern their securities lending and borrowing activities.

2. ISLA began a review of the GMSLA in 2004 and published a consultative paper on possible changes to the Agreement in July 2007. The new draft reflects the responses to that consultation and discussions in working groups of ISLA members on legal and tax issues respectively, with generous drafting assistance from Freshfields together with Deloitte and PriceWaterhouseCoopers on tax aspects.

3. The objectives of the review were
 - To update the Agreement to reflect changes in law, tax and market practice, as well as new issues arising, since 2000.
 - To address some of the amendments that lenders and borrowers commonly make to the Agreement bilaterally using side letters.
 - Where appropriate, to use the same language and form as the Global Master Repo Agreement (GMRA) (2000 version).
 - To identify all likely events that may have a tax consequence and identify the party that will bear the associated tax risk.

4. The main changes from the previous version are summarised in the covering memorandum and include:

- A new obligation on a securities borrower to recall any non-cash collateral over an interest payment date provided it has delivered adequate alternative collateral. Failure to comply with this obligation is not an event of default.
- Failure to deliver equivalent securities or collateral is no longer a potential event of default, reflecting the view that such failures are usually for operational rather than credit reasons.
- The set-off procedures following an Event of Default have been broadly harmonised with those in the GMRA.
- A 'gross-up' requirement for tax deducted or withheld has been added in relation to all payments other than manufactured payments on collateral.
- Addendum for Multiple Principal Transactions: An addendum has been added, modeled on the similar addendum to the GMRA where agents wish to make agency Loans on behalf of more than one principal and allocate collateral on a pro-rata basis amongst them (also known as a collateral allocation letter).
- An updated UK Tax Addendum has been added, covering both Overseas Securities and real estate investment trust shares. ISLA is not proposing to publish standard tax addenda for any other jurisdictions at this time.

5. ISLA is seeking comments on the amended Agreement by 30 June and will decide on a final publication date in the light of that feedback.

NOTES TO EDITORS

1. The draft amended version of the GMSLA and a covering memorandum are available at www.isla.co.uk.
2. *Securities lending.* Securities lending is the temporary transfer of securities from a lender to a borrower against collateral securities or cash. The securities lending market provides liquidity to the equity, bond and money markets, reducing the cost of trading and benefiting all. The ability to lend and borrow securities underpins the services that securities dealers offer customers and the trading strategies of dealers, hedge funds and asset managers. By one estimate, the value of securities on loan internationally is close to US\$6 trillion.

3. *ISLA* is a trade association established in 1989 to represent the common interests of participants in the international securities lending industry. *ISLA* has 100 members comprising insurance companies, pension funds, asset managers, banks and securities dealers representing more than 4,000 clients. While based in London, *ISLA* represents members from more than twenty countries in Europe, the Middle East and North America.

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