



ISLA ISSUES MODEL FOR EUROPEAN AGENT LENDER DISCLOSURE

1. The International Securities Lending Association (ISLA) has today published its recommended model for agent lender disclosure in Europe. Agent lenders, such as custodian banks, lend securities as agent on behalf of underlying principals, such as pension and investment funds, often on a pooled basis. The model will standardise the provision of information from agent lenders to borrowers of securities so that the borrowers can monitor their exposures to those underlying principals and calculate regulatory capital requirements under Basel 2. For UK-regulated firms, the Financial Services Authority has stated that borrowers should be receiving full information daily about their exposures at underlying principal level by 1 January 2010 at the latest.

2. ISLA's model has been developed by a working group of ISLA member firms, including agent lenders and borrowers and supported by Capco, the consulting firm. It incorporates feedback from a public consultation in May. The model builds on the successful US model for agency lending disclosure introduced in 2006. In particular,

- Agent lenders should provide daily files (the same standardised files used in the US model) to borrowers detailing outstanding loans and the allocation of collateral delivered by the borrower according to the underlying principal lenders
- Agent lenders should use the US credit approval process when informing borrowers that underlying principal lenders are joining or leaving their programme
- Files should be routed through the same data transmission hub used in the US model, provided by the Depository Trust and Clearing Corporation (DTCC)
- Some changes are proposed to the content of the standard files in order to meet European requirements, including adding reporting of agency repo transactions and facilitating reporting of agency reverse repo transactions on an optional basis.

3. The model includes an implementation timetable with the following milestones:

- Firms already using the US model can begin sending or receiving files of European data as soon as they are ready

- European firms that are not current users of the US model can begin sending or receiving files of European data via the DTCC hub from January 2009
- All firms should begin using the new file content for European data (eg inclusion of agency repo trades) in Q4 2009, following testing in Q3 2009.

NOTES TO EDITORS

1. The final paper setting out the model is 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 more than 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, Africa and North America.
4. Firms represented on the *working group* were AIG, Barclays Global Investors, BNP Paribas, Dresdner Kleinwort, HSBC, Citi, Northern Trust, State Street, Prudential, JPMorganChase, Santander, Merrill Lynch, Morgan Stanley, Deutsche, ABN Amro, RBS, Fortis, Credit Suisse, Lehman, Goldman Sachs, Nomura and UBS. The working group was supported by Capco.

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