

**GUIDELINES ON SECURITIES BORROWING
AND LENDING PROGRAMME
UNDER RENTAS**

**JABATAN OPERASI PELABURAN DAN PASARAN KEWANGAN
BANK NEGARA MALAYSIA
KUALA LUMPUR**

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FOREWORD

The Securities Borrowing and Lending (SBL) Programme under RENTAS has been identified as one of the measures to promote the development of the Malaysian bond market. A securities borrowing transaction involves an exchange of securities between two parties for a period of time to meet the temporary needs of either or both parties. The objective of implementing the SBL programme is to enhance the liquidity in the secondary bond market by providing a new mechanism to support trading strategies for dealers and also to enhance the return on bond portfolio investment for investors.

2. This Guidelines on Securities Borrowing and Lending programme under RENTAS is issued pursuant to section 126 of the Banking and Financial Institutions Act 1989 (BAFIA) to be complied by all parties participating in the SBL programme. All enquires regarding the Guidelines should be addressed to:

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**GUIDELINES ON SECURITIES BORROWING AND LENDING
PROGRAMME UNDER RENTAS**

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PART I

GENERAL

1.0 Objective and Effective Date

- 1.1 The objective of the Guidelines on Securities Borrowing and Lending programme under RENTAS (Guidelines) is to provide a uniform set of rules to govern the conduct and obligations of the market participants with respect to the securities borrowing and lending transaction.
- 1.2 The Guidelines, which is issued pursuant to section 126 of the Banking and Financial Institutions Act 1989 (BAFIA), has been established to assist the market participants in understanding the regulatory framework that governs the SBL market and sets out the terms and conditions, procedures and practices which the market participants in the SBL market must observe as a matter of best practice
- 1.3 The Guidelines shall be effective from 10 December 2001.

2.0 Interpretation

Unless the context otherwise requires, the following expressions shall have the meaning assigned to them:

“approved dealers” are authorised depository institutions which are dealers authorised by BNM to participate in the inter-bank money market

“authorised depository institution” refers to financial institutions (FI) licensed under the BAFIA that is a member of RENTAS or any other person who is authorised or approved by Bank Negara Malaysia to hold scripless securities, to receive and make payment relating to such securities, on behalf of customers who are not members of RENTAS

“BNM” means Bank Negara Malaysia

"borrower" means the person who borrows securities in a SBL transaction

“Guidelines” means the Guidelines on Securities Borrowing and Lending Programme under RENTAS

"lender" means the person who lends the securities in a SBL transaction

“Non Licensed Institutions” means institutions, which have a statutory requirement to maintain specified securities in their portfolio

"ownership" means the title, coupon, interest, dividend and any other rights attached to the securities, if any

“parties” means the borrower, lender or any authorised depository institution transacting on their behalf

“principal dealer” refers to a FI appointed by BNM to carry on the business dealing in specified instruments as principal and/or agent, and which among other things the obligation to tender in primary issue of specified RENTAS securities and to make market for these securities;

“RENTAS” means the Real Time Electronic Transfer of Funds and Securities System maintained by BNM

“Securities” means scripless securities transacted and deposited under the RENTAS system

3.0 Coverage and General Provisions

- 3.1 This Guidelines is applicable to all wholesale market dealings on borrowing and lending transaction of scripless securities effected under RENTAS system.
- 3.2 SBL will be included as one of the financial products covered under Schedule I of the Malaysian Code of Conduct for Principals and Brokers in the Wholesale Money and Foreign Exchange Markets.
- 3.3 Market participants entering into any SBL transaction should observe:
- (a) The Rules on the Scripless Securities under the Real Time Electronic Transfer of Funds and Securities (RENTAS) System;
 - (b) Malaysian Code of Conduct for Principals and Brokers in the Wholesale Money and Foreign Exchange Markets;
 - (c) The rules on FAST and BIDS; and
 - (d) Any other rules, guidelines, codes and directives issued by Bank Negara Malaysia from time to time.
- 3.4 The Guidelines may, from time to time, be varied, added or revoked, in whole or in part, at the discretion of BNM.

4.0 SBL Transaction

- 4.1 A SBL transaction involves an exchange of securities between two parties for an agreed period of time to meet the temporary needs of either or both parties, typically dealers who need securities to support their trading activities or to enhance return on their investment portfolio.

4.2 A SBL transaction will consist of the following elements:

- (a) the borrowing of securities for a period of time;
- (b) the borrower provides the lender with collateral;
- (c) the lender earns a fee as consideration for the loan of the securities;
- (d) there is a transfer of ownership of the securities:
 - (i) from borrower to lender with regards to the collateral ; and
 - (ii) from lender to borrower with regard to the securities lent;
- (e) the borrower and/or lender is entitled to the value of the coupon payments on the collateral and/or securities lent for the duration of the SBL transaction;
- (f) the lender or borrower may recall the collateral or securities lent at any time during the duration of the SBL transaction after serving adequate notice, subject to payment of an early termination fee; and
- (g) at the end of the duration of the SBL transaction loan period ,the borrower returns the securities lent to the lender and the lender will return the collateral to the borrower.

PART II

DEALING IN SBL TRANSACTION

5.0 Mechanism

5.1 The following are basic steps in a SBL transaction.

(a) **Dealing in SBL Transaction**

The parties to the SBL transaction shall conduct the transaction via money brokers or through direct dealing. The two parties shall negotiate the terms of the securities lending, in particular the type and amount of the securities to be lent and collateral to be delivered, tenure, delivery date, lending fee rate and lending fee amount.

(b) **Initiation of SBL Transaction: Exchange of securities on value date**

On value date, the borrower shall initiate the SBL transaction by transferring the collateral to the lender. Simultaneously, the securities agreed in the SBL transaction are delivered by the lender. Ownership of the securities lent is transferred to the borrower on value date and ownership of the collateral is transferred to the lender on value date.

(c) **Maturity of SBL Transaction: Exchange of securities on maturity date**

On maturity date, the borrower shall return the securities initially borrowed and pay a lending fee to the lender. The lender shall simultaneously return the collateral to the borrower. The ownership of the securities involved shall revert to the original owner on maturity date.

5.2 The mechanics of a SBL transaction is summarized in Appendix I.

6.0 Parties

6.1 To conduct SBL transactions, parties who are:

6.1.1 **RENTAS members** are required to transact via the SBL module in RENTAS. Multiple scripless securities may be used as collateral for a single SBL transaction: and

6.1.2 **Non-RENTAS members**, are required to maintain scripless securities account with an authorised depository institution.

6.2 Principal Dealers are the only institutions authorised to participate as “lender” and “borrower” of securities under the SBL programme.

6.3 All approved dealers and non-licensed institutions may only participate as “Lender”.

6.4 Non-residents, as defined under the Exchange Control Act 1953, are not allowed to participate in the SBL programme.

7.0 Lending fee

7.1 The SBL lending fee is computed based on the following

- (a) number of days the securities is being lent;
- (b) lending rate; and
- (c) outstanding market value of the securities.

7.2 The lending fee is paid through the Interbank Fund Transfer System [IFTS].

7.3 Formula for calculating the SBL lending fee is in Appendix II.

8.0 Permitted Securities

- 8.1 Principal Dealers are only allowed to borrow securities, which are specified by BNM in the appointment letter of the principal dealers and with minimum outstanding amount of RM1 billion.
- 8.2 The collateral acceptable under the SBL transactions are scripless securities deposited under RENTAS.
- 8.3 Cash collateral is not permitted under a SBL transaction, as cash collateral transactions will be classified as a reverse repo transaction. The value of the collateral must, at all times, be maintained at a level specified by BNM from time to time.

9.0 Margin

- 9.1 Parties in a SBL transaction should negotiate for a suitable level of margin reflecting both their assessment of their counterparty's creditworthiness and the market risks (e.g. duration of securities) of a transaction including price volatility of the loaned securities and the collateral. Valuation procedures for the margin must be in place to ensure that calls for additional collateral are made on a timely basis.
- 9.2 If the market value of the securities borrowed and collateral differ from their market value on any day before the maturity date of the SBL transaction, the Lender has the right to call for additional collateral or the Borrower has the right to call for return of collateral, in order to safeguard one party against the non-performance of obligations by the other party. Such additional collateral shall be in the form of scripless securities deposited under RENTAS.

10.0 Credit Analysis

- 10.1 Lenders must also carry out sufficient credit analyses when selecting borrowers to ensure that the parties, which they are dealing with in respect of SBL transactions, have good financial standing. Sufficient credit reviews should also be performed at regular intervals to ensure that such financial status has not altered.
- 10.2 In assessing the credit standing of the counterparty, the particulars, which must be scrutinised, include the borrower's financial statement, capitalisation, management, earnings, business reputation and any other factors that are relevant.
- 10.3 Such credit analyses should be performed by an independent department of the lender and by persons who routinely perform credit analyses. Analyses performed solely by the person managing the SBL programme are not sufficient.

11.0 Early Termination

- 11.1 Based on the principle that securities lending should in no way interfere with both parties investment strategy, either party may terminate the contract by giving sufficient notice, with the instruction to reverse the original delivery process to either party.
- 11.2 An early termination fee may be imposed, which shall be agreed by both parties as specified in the SBL Agreement. The lending fees shall then be apportioned accordingly to the actual holding period of the lending transaction.

12.0 Clearing and Settlement Procedures

- 12.1 The settlement procedures of SBL transactions shall be treated as "Lending/Borrowing" under the SSTS module in RENTAS. The module shall facilitate the transaction under the "delivery-versus-delivery" method. Exchange of securities between parties shall take place simultaneously on value and maturity dates. Computer Host System (CHS) in BNM shall effect the borrowing and lending transactions provided that there is sufficient securities in both parties' SSTS Account.
- 12.2 The lending fee shall be automatically deducted from the borrower's Cash Account and credited to the lender's Cash Account on the maturity date of the transaction.

13.0 Period of SBL transaction

- 13.1 The period of any SBL transaction **must not be more than 1 month.**

PART III

OTHERS

14.0 Liquid Asset Status under the Liquidity Framework

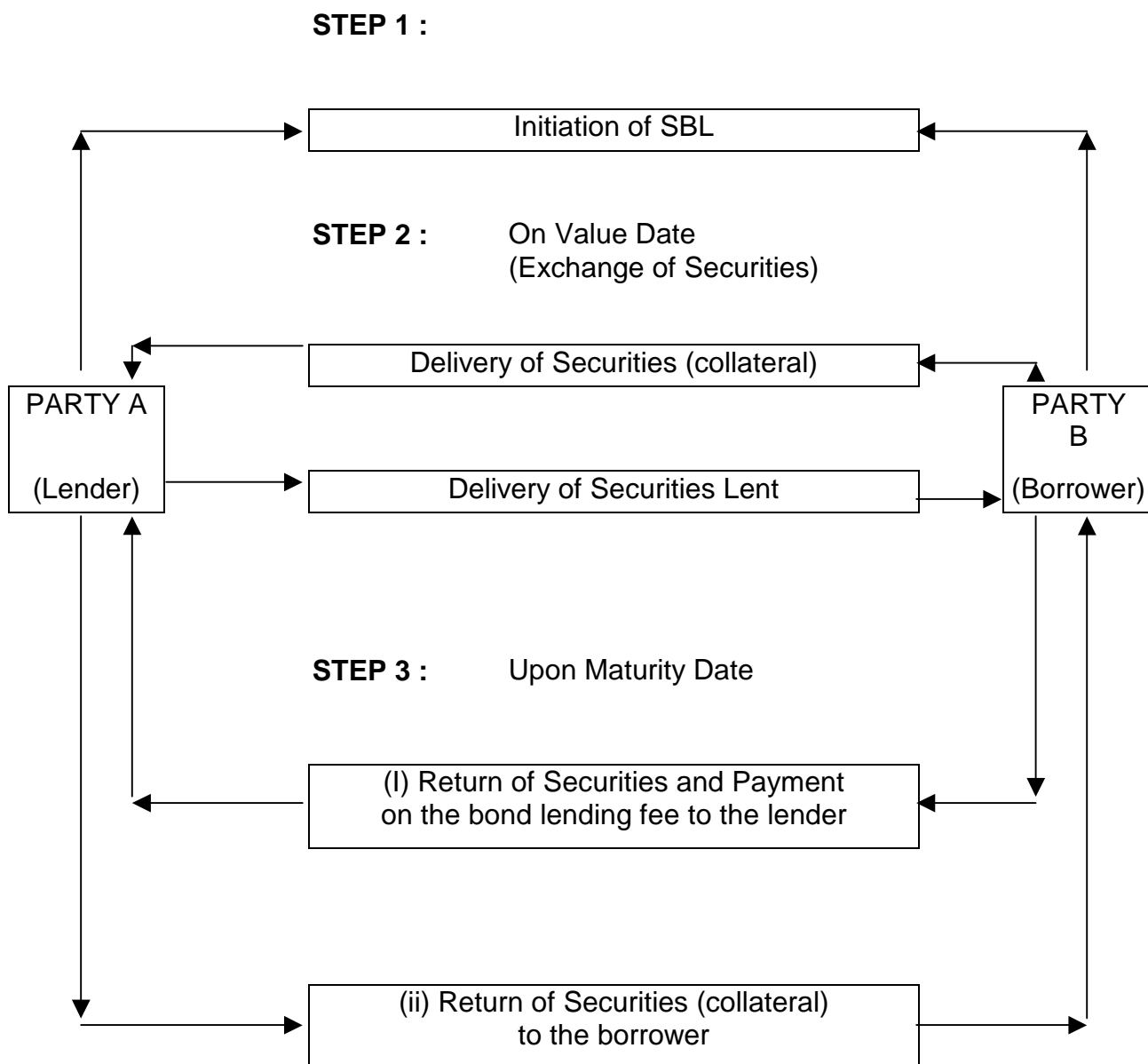
- 14.1 Securities held as collateral under SBL transaction, which have been identified under the Liquidity Framework to have fulfilled the qualifying characteristics of liquefiable asset status, are eligible for liquefiable asset status for the period under SBL transaction only if there are no restrictions on sale imposed.
- 14.2 Securities lent under the SBL transaction will not be eligible for liquefiable asset status for the period under the SBL transaction.

15.0 SBL Agreement

- 15.1 All participants in SBL program should enter into a SBL Master Agreement in writing prior to entering into any SBL transaction.
- 15.2 The Master SBL Agreement shall constitute a continuing agreement in every aspect and shall apply to each and every SBL transaction, whether new, existing or hereafter made.
- 15.3 The SBL Master Agreement should contain, among others, details on the following provisions and shall be in line with this Guidelines.
- (a) Absolute transfer of ownership of the securities lent from lender to borrower and ownership of the collateral from borrower to lender;
 - (b) Rights of the lender with regards to the collateral and rights of the borrower with regards to the securities lent throughout the duration of the SBL transaction;

- (c) Procedures for calculating the lending fee;
- (d) Sufficient clauses on marking to market of the SBL transactions including procedures for calculating margins;
- (e) Early termination clauses and the early termination fee that the parties may be subject to;
- (f) Events of default and the consequential rights and obligations of the parties;
- (g) Laws of Malaysia as the governing law of the SBL Master Agreement; and
- (h) Methods of communication, sending notices and termination under the SBL Master Agreement.

The Mechanics of Securities Borrowing and Lending (SBL)



Formulae for SBL transaction

a) Outstanding Value

$$\begin{aligned} & \text{Outstanding Value} \\ & = \left(\frac{\text{Price}}{100} \times \text{Nominal Amount (rounded to the nearest sen)} \right) + \text{Accrued Interest} \end{aligned}$$

b) Margin Formula

$$\left(\frac{\text{Total Outstanding Value of Collateral Stock} - \text{Total Outstanding Value of Loan Stock}}{\text{Total Outstanding Value of Loan Stock}} \right) \times 100$$

c) Lending Fees

$$\left(\text{Lending Rate} \right) \times \left(\frac{\text{Outstanding Value of Loan Stock}}{\text{of Loan Stock}} \right) \times \left(\frac{\text{Number of days up to the Maturity date / Termination date / Redemption date}}{365} \right)$$

d) Extended Lending Fees

$$(Lending\ Rate) \times \left(\begin{array}{l} \text{Outstanding Value} \\ \text{of Loan Stock} \end{array} \right) \times \left(\frac{\begin{array}{l} \text{Number of days up from original} \\ \text{Maturity date to extended Maturity date} \end{array}}{365} \right)$$

d) Termination Fees

$$(Termination\ Rate) \times \left(\begin{array}{l} \text{Outstanding Value} \\ \text{of Loan Stock} \end{array} \right) \times \left(\frac{\begin{array}{l} \text{Number of remaining days} \\ \text{to original Maturity date} \end{array}}{365} \right)$$