



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Securities Borrowing and Lending of RENTAS Securities

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PART A OVERVIEW

1 Introduction

- 1.1 The Securities Borrowing and Lending (SBL) allows two parties to loan securities for a period of time to meet the temporary needs of either or both parties. The objective of SBL is to enhance the liquidity in the secondary bond market by providing mechanisms to support market liquidity, market making activities and also to enhance the return on bond portfolio investment.
- 1.2 This policy document aims to provide the rules to govern the conduct and obligations of market participants who enter into SBL transaction in respect of the Securities. It aims to assist the market participants in understanding and complying to the regulatory framework that governs the SBL market and stipulate the terms and conditions, procedures and practices which the market participants in the SBL market must observe.

2 Applicability

- 2.1 This policy document is applicable to all market participants who undertake or enter into SBL transactions in respect of the Securities.
- 2.2 This policy document is not applicable to SBL transactions under the Bank's Institutional Securities Custodian Programme (ISCAP).

3 Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to section 140 of the Financial Services Act 2013 (FSA).
- 3.2 The guidance in this policy document is issued pursuant to section 266 of the FSA.

4 Effective date

- 4.1 This policy document comes into effect on 01 July 2016.

5 Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA, unless otherwise defined in this policy document.
- 5.2 For the purpose of this policy document–

“S” denotes a standard, obligation, requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-

compliance may result in enforcement action.

“G”	denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted.
“Borrower”	means the person who borrows the Securities from a Lender in a SBL transaction;
“Lender”	means the person who lends the Securities to a Borrower in a SBL transaction;
“market participants”	means the Lender and the Borrower who undertake or enter into SBL transactions in respect of the Securities;
“ownership”	means the title, coupon, interest, dividend and any other rights attached to the Securities, if any;
“Principal Dealers”	refers to licensed banks appointed by the Bank that have certain obligations in respect of the dealing in specified instruments, by virtue of which are accorded certain incentives;
“RENTAS”	means the Real Time Electronic Transfer of Funds and Securities System which is the real time gross settlement system operated by Malaysian Electronic Clearing Corporation Sdn. Bhd. on behalf of the Bank which provides for- (a) interbank funds transfers in Malaysia; (b) scripless securities transfers on delivery-versus-payment mode; and (c) such other transactions as may be approved by the Bank from time to time;
“SBL transaction”	means any borrowing and lending of the Securities for a limited period of time, in exchange of collateral and lending fee;
“Securities”	means Ringgit-denominated debentures, bills, notes, bonds and any other debt securities deposited under the RENTAS system with a minimum outstanding amount of RM1 billion;
“SSDS”	means Scripless Securities Depository System; and

“SSDS Participants” refers to the participants in the RENTAS system that are permitted to hold the Securities for their own accounts and, if applicable, on behalf of their customers.

6 Related legal instruments and policy documents

- 6.1 This policy document must be read together with other relevant legal instruments, policy documents, guidelines, codes or circulars, in particular -
- (a) Participation and Operation Rules for Payments and Securities Services;
 - (b) Operational Procedures for Securities Services;
 - (c) The Foreign Exchange Administration Rules; and
 - (d) Any other relevant legal instruments and policy documents issued pursuant to the laws administered by the Bank from time to time.

7 Policy document superseded

- 7.1 This policy document supersedes the Guidelines on Securities Borrowing and Lending Programme Under RENTAS issued in December 2001.

PART B POLICY REQUIREMENTS

PART I – REGULATORY FRAMEWORK

8 General Requirements

- G** 8.1 The conduct of SBL transactions should be in line with the principle of maintaining market professionalism and integrity in order for the inter-bank money market to operate in a sound and orderly manner.
- S** 8.2 The Lender and the Borrower shall not in any circumstances enter into SBL transactions with the intention of creating a false or distorted market in the Securities.
- S** 8.3 Non-residents, as defined under section 213 of the FSA are prohibited from dealing in any SBL transaction and/or accepting collateral which involves the Securities.
- S** 8.4 No person shall facilitate non-residents to deal in any SBL transaction and/or accept collateral which involves the Securities.
- S** 8.5 Principal Dealers shall either act as the Lender or the Borrower in any SBL transaction.
- S** 8.6 All institutions other than Principal Dealers which maintain Securities in their portfolios and SSDS Participants can only act as the Lender in any SBL transaction.
- S** 8.7 To undertake or enter into SBL transactions, market participants who are-
- (a) **RENTAS participants**, shall transact via the SBL module in the RENTAS system. Multiple Securities may be used as collateral for a single SBL transaction; and
 - (b) **Non-RENTAS participants**, shall maintain securities account with SSDS Participants which are permitted to hold the Securities on behalf of their customers.
- S** 8.8 The maximum tenure of any SBL transaction shall be 1 month.
- S** 8.9 All SBL transactions involving the Securities shall be settled through the RENTAS system.

9 Mechanism

- S** 9.1 A SBL transaction shall consist of the following elements:
- (a) the borrowing of the Securities for a period of time;
 - (b) the Borrower provides the Lender with collateral;

- (c) the Lender earns a lending fee as consideration for the loan of the Securities;
- (d) there is a transfer of ownership of the Securities:
 - (i) from the Borrower to the Lender with regard to the collateral; and
 - (ii) from the Lender to the Borrower with regard to the lent Securities;
- (e) the Borrower and/or the Lender is entitled to the value of the coupon payments on the collateral and/or the lent Securities for the duration of the SBL transaction;
- (f) the Lender or Borrower may recall the collateral or the lent Securities 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 will return the lent Securities to the Lender and the Lender will return the collateral to the Borrower.

G 9.2 The following are the steps in a SBL transaction.

- (a) **Dealing in a SBL Transaction**
The market participants can undertake or enter into the SBL transaction via money brokers or through direct dealing.
- (b) **Initiation of SBL Transaction: Exchange of securities on value date**
On value date, the Borrower may initiate the SBL transaction by transferring the collateral to the Lender together with the ownership of such collateral. The Lender may simultaneously deliver the Securities as agreed in the SBL transaction to the Borrower together with the ownership of the lent Securities.
- (c) **Maturity of SBL Transaction: Exchange of securities on maturity date**
On maturity date, the Borrower may return the Securities initially borrowed and pay a lending fee to the Lender. The Lender may simultaneously return the collateral to the Borrower. The ownership of the Securities involved may revert to the original owner on maturity date.

G 9.3 The mechanism of a SBL transaction is summarized in Appendix 1.

10 Lending Fee

G 10.1 The lending fee is computed based on the following:

- (a) number of days the Securities is being lent;

- (b) lending rate; and
- (c) market value of the lent Securities.

G 10.2 The formula for calculating the lending fee is set out in Appendix 2.

11 Permitted Securities

S 11.1 The Borrower shall only use the Securities as collateral under the SBL transaction.

S 11.2 The Borrower shall not use cash as collateral under a SBL transaction, as cash collateral transactions will be classified as a reverse repo transaction.

12 Internal Controls

S 12.1 The Lender and the Borrower shall establish internal guidelines to assess and manage the credit and market risks involved in undertaking the SBL transactions.

13 Early Termination

G 13.1 Based on the principle that the SBL transaction shall not interfere with both parties' investment strategy, either party may terminate the contract by giving sufficient notice to the other party, together with the instruction to reverse the original delivery process.

G 13.2 An early termination fee may be imposed, which shall be agreed by both parties as specified in the SBL agreement. The SBL lending fee shall then be apportioned accordingly to the actual holding period of the SBL transaction.

14 Clearing and Settlement Procedures

S 14.1 The settlement procedures of the SBL transactions shall be treated as "Lending/Borrowing" under the SSDS module in the RENTAS system. The module shall facilitate the transaction under the "delivery-versus-delivery" method. Exchange of the Securities between the parties shall take place simultaneously on value and maturity dates. The Bank's Computer Host System shall effect the SBL transactions provided that there are sufficient Securities in both parties' SSDS Account.

S 14.2 The SBL 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 SBL transaction.

15 Reporting Requirements

S 15.1 The Borrower shall report the SBL transaction in respect of the Securities in Bursa Malaysia Berhad's Electronic Trading Platform (ETP) in accordance with the relevant rules as specified by Bursa Malaysia.

PART II: OTHERS

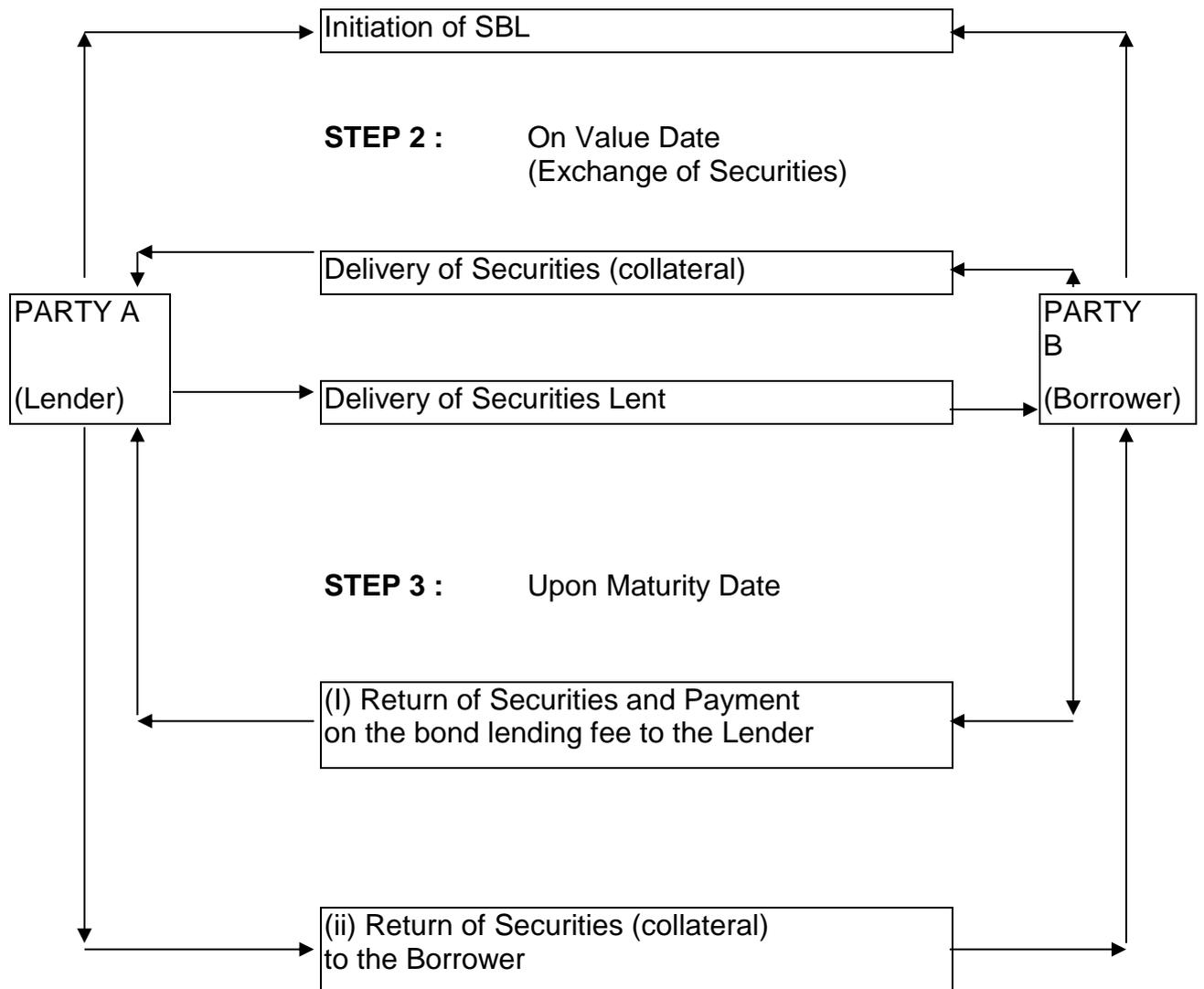
16 SBL Agreement

- S** 16.1 Prior to entering into any SBL transaction, all market participants shall enter into a SBL agreement which specifies all terms of the transaction, duties and obligations between the parties concerned.
- S** 16.2 All market participants shall ensure that the SBL agreement constitutes a continuing agreement in every aspect and shall apply to each and every SBL transaction, whether new, existing or hereafter made.
- S** 16.3 The SBL agreement shall be subject to a governing law agreed by the parties. At minimum, the SBL agreement shall provide for-
- (a) absolute transfer of ownership of the lent Securities from the Lender to the Borrower and ownership of the collateral from the Borrower to the Lender;
 - (b) rights of the Lender with regard to the collateral and rights of the Borrower with regard to the lent Securities;
 - (c) procedures for calculating the lending fee;
 - (d) sufficient clauses on mark-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 to the transactions including provision on close-out netting; and
 - (g) methods of communication, sending notices and termination under the SBL agreement.

APPENDICES

APPENDIX 1 The Mechanics of Securities Borrowing and Lending (SBL)

STEP 1 :



APPENDIX 2 Formulae for SBL Transaction**a) Market value**

$$= \left(\frac{\text{Net Price}}{100} \times \text{Nominal Amount} \right) + \text{Accrued Interest}$$

b) Lending fees

$$= (\text{Lending Rate}) \times \left(\begin{array}{l} \text{Market value} \\ \text{of lent Securities} \end{array} \right) \times \left(\frac{\text{Number of days up to the Maturity date /} \\ \text{Termination date / Redemption date}}{365} \right)$$