

# Securities Lending and Borrowing

July 2019



# Overview of the Securities Lending & Borrowing (SLB)

## What?

- SLB is a **legally approved** medium for lending and borrowing of securities
- Regulations were originally formed by SEBI in May 1997 & last modified in Nov 2012
- **All market participants** in Indian securities market have been permitted to lend/borrow

## Why?

- Provides an **incremental return to the Lender** on a long hold strategy portfolio
- **No Risk** as the settlement is guaranteed by the Exchanges NSCCL (NSE) thereby ensuring the return of stock

## Who?

- Scenarios in our experience where opportunities arise for Borrowers
  - **Financing the Trading book** at a lower rate of interest
  - **Reverse arbitrage** when futures are at a discount to stock
  - To **cover short position** or to avoid settlement failure
  - Borrow demand due to **Physical Settlements** in Equity Derivatives

# Features

- Securities Lending is a temporary loan of securities by a lender to a borrower for a fee
- Launched in April-2008. Revised guideline applicable from January 2018.
- NSE Clearing Ltd. is a SEBI 'Approved Intermediary' for SLB transactions
- Key features of the SLBM
  - Trading system – screen based matching
  - All classes of investors Retail, Proprietary, Institutional (DFIs, MFs and FIIs) permitted
  - Cash, Fixed Deposit Receipts, Bank Guarantees, G-Sec/T-Bills and Approved Securities
  - Settlement Guaranteed by NSE Clearing Ltd
  - Early repay and recall, rollover facilities available
  - Tax advantage

## Benefit to Lender

Risk free income

Protection of all rights as owner

Settlement Guarantee by NSE Clearing Ltd

Improve Portfolio Performance

## Benefit to Borrower

Arbitrage Strategy

Cover Short Sale Position

Pair Trading

# Product Specifications

## Trade Related

- 329 securities – including F&O , eligible non F&O stocks and ETFs
- 12 Monthly contracts
- 9.15 am to 5.00 pm

## Orders

- Types :Lend, Borrow, Repay & Recall
- Quotes: Lending fees per share
- Lending Price: Underlying Close Price of T-1 day

## Position Limit

- **Position Limits (security-wise)**
  - Market Wide (MWPL): 10% of the no. of shares held by non-promoters in the security
  - Institutional Investors : **10% of MWPL**
  - Client level : 1% of MWPL

## Settlement

- 1<sup>st</sup> Leg : T+1;
- Reverse Leg : 1<sup>st</sup> Thursday of respective series month
- Shortage Handling:
  - 1<sup>st</sup> Leg : Securities shortage results in financial close out
  - Reverse Leg : Securities shortage results in Auction / Close-out

- 12 monthly tenures available
- Identification by series number
- Series number indicate the settlement month
- Fixed reverse leg settlement dates on the first Thursday of the respective month
- Reverse Leg date postponed to next working day in case of Thursday being a holiday
- Provided one week over Equity Derivatives expiry
- Quote lending fees based on the pending tenure for the respective series
- Settlement is on gross basis
- Separate Rollover Contract: Rollover of lending/borrowing obligations can be done up to 1 year

Months	Regular Contracts	New Contracts
January	1	X1
February	2	X2
March	3	X3
April	4	X4
May	5	X5
June	6	X6
July	7	X7
August	8	X8
September	9	X9
October	10	XO
November	11	XN
December	12	XD

**New Contracts where no foreclosure for AGM & EGM**

## On T-Day

### Lender

1. No margins applicable if Early Pay-In (EPI) of securities is done
2. If no EPI then Margin is levied at 25% of Lending Price + MTM at EOD (real time collateral is blocked)

### NSE

1. Trading hours 9.15 am to 5.00 pm
2. Quotes in lending fees per share on NEAT SLBM
3. 12 Monthly series available
4. Lending / borrowing on F&O securities
5. Facility of early recall or repayment

### Borrower

1. Margin: 100% of lending fees (real time is blocked from collateral)

## On T+1 Day

1. Securities Pay-in by 9.30 am
2. Lending fees pay-out by 11.30 am (Even in case of default of borrower)
3. Margins drop after Pay-in
4. In case of failure to deliver securities – Financial close out is done

Securities pay-in

Securities pay-out

NSE Clearing Ltd

Fees pay-out

Fees pay-in

1. Lending fees pay-in by 9.30 am
2. Securities pay-out by 11.30 am
3. Margin: 100% of lending price (VaR, ELM & MTM blocked from collateral)
4. Incase of failure to provide fees – Fees to be recovered & passed on to lender

## Reverse leg Day

1<sup>st</sup> Thursday of every series

1. Pay-out of securities by 11.30 am

Securities pay-out

NSE Clearing Ltd

Securities pay-in

## Reverse leg Day+1 Only in-case of borrower's default on R-day

1. Pay-out of securities by 11.30 am (For auction conducted on Reverse leg day)
2. Financial close-out in case the stock is not available through auction or default by auction offeror

Securities pay-out

In case of No pay-in

1. Pay-in of securities by 9.30 am
2. Margins drop after Pay-in on reverse leg day or EPI between T+1 & R-1 day
3. In case of failure to deliver securities – Auction buying or financial close-out

Margins applicable to lenders and borrowers

## Lenders

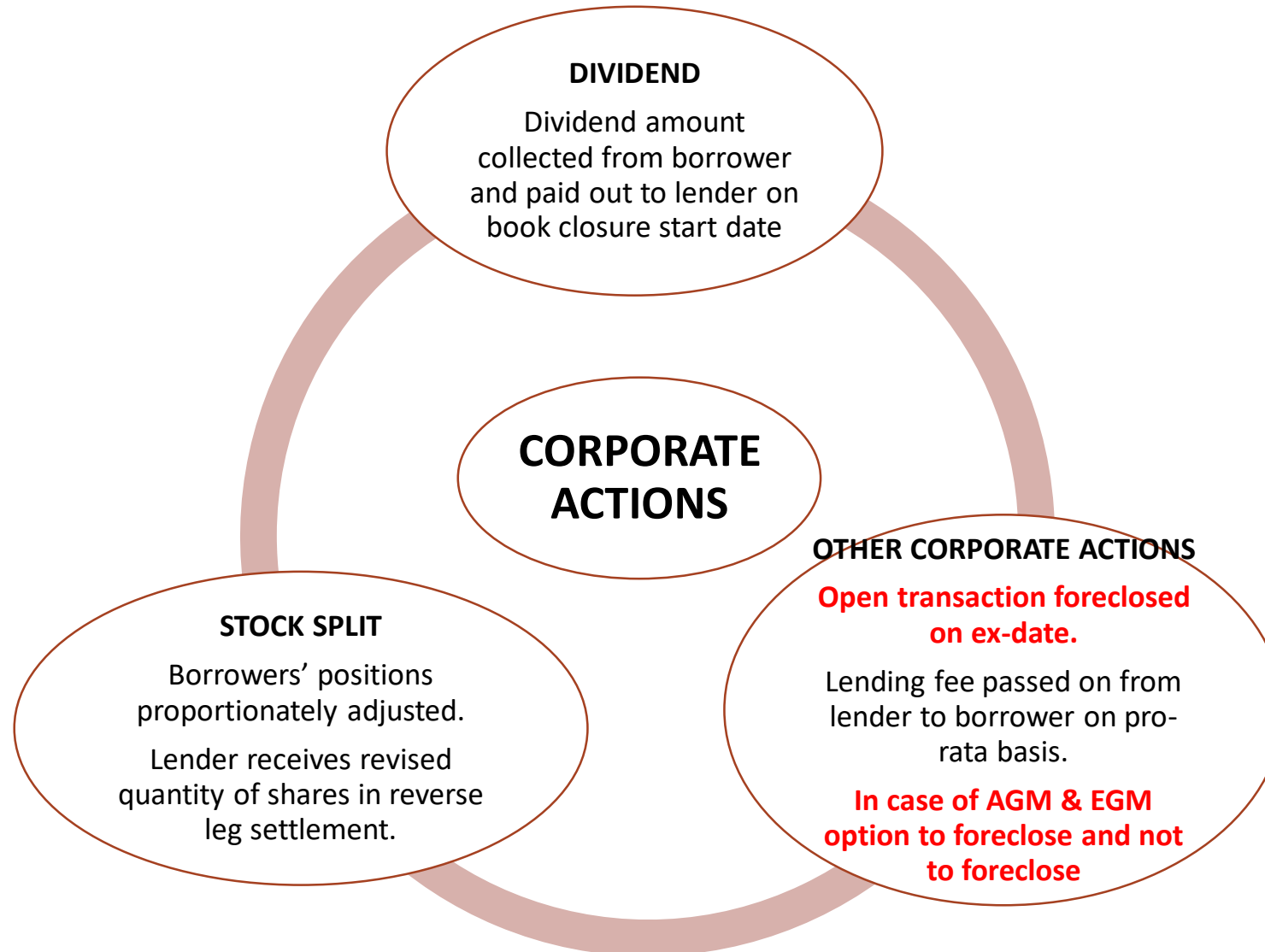
- 25% of Lending Price & MTM at EOD
- **No Margins if securities delivered early**
- Margins dropped post completion of settlement on T + 1 Day
- No margins in Reverse Leg

## Borrowers

- On T Day – 100% of Lending Fees
- On T + 1 Day – 100% of Lending Price, VaR, ELM & MTM at EOD
- Margins dropped post completion of Reverse Leg settlement

MTM – Marked to Market margin  
VaR – Value at Risk  
ELM – Extreme Loss Margin

# Corporate Actions





# Early Recall & Repay Facility

## Early Repay Facility

- Available for borrowers of securities, is as good as lending
- Facility to return the securities borrowed prior to predefined tenor
- Used when borrowers have executed their planned strategy and no longer need the securities



Exchange



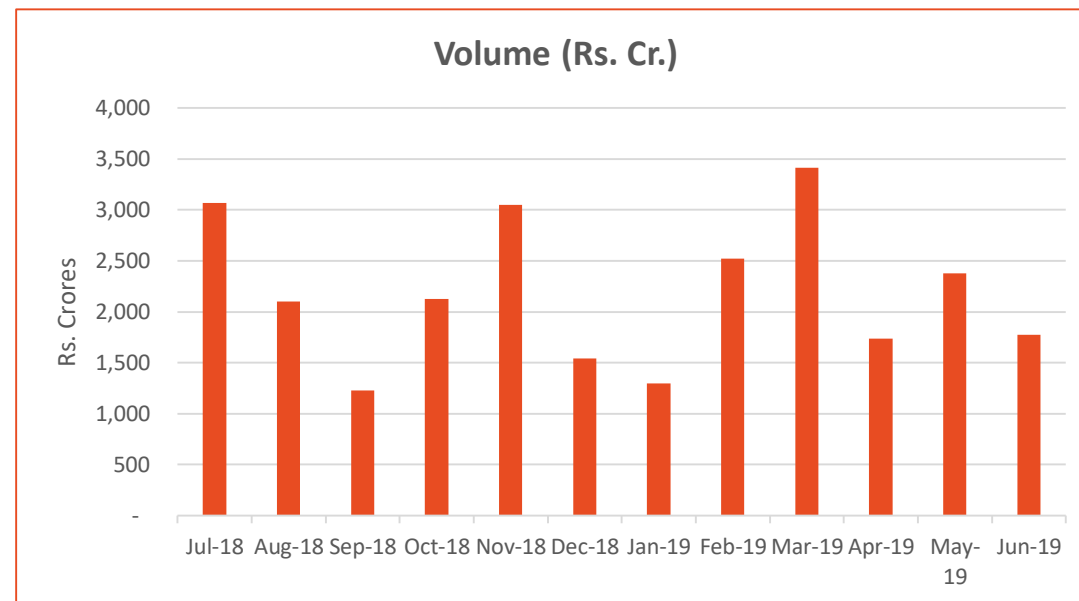
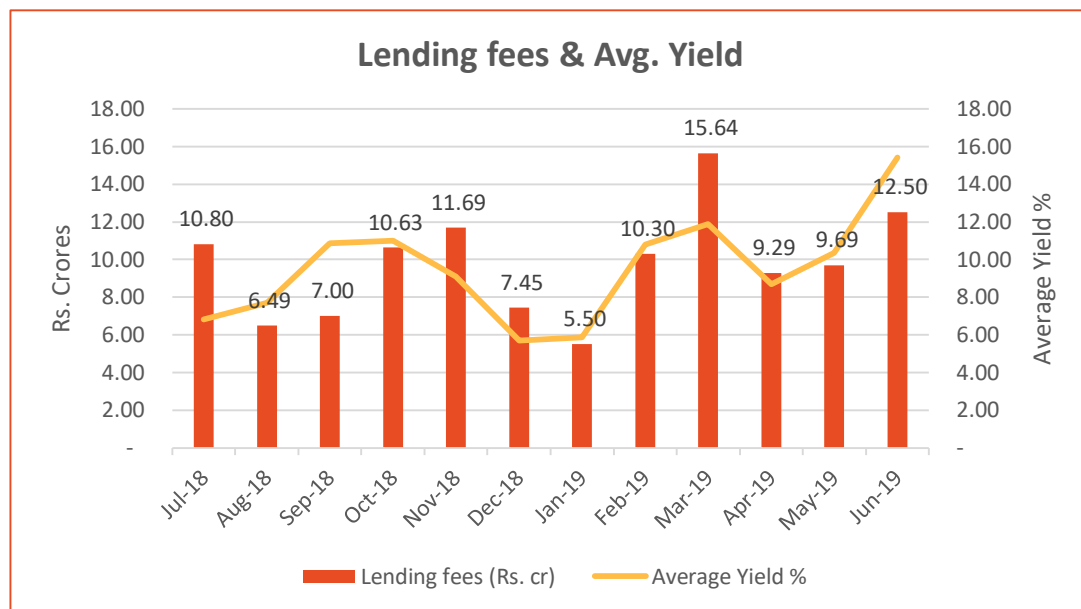
## Early Recall Facility

- Available for lenders of securities, is as good as borrowing
- Facility to call back the securities lent prior to predefined tenor
- Used when lenders want to sell their holdings



Lender

	REPAY	RECALL
Order Entry	<ul style="list-style-type: none"> <li>• “REPAY” orders entered</li> <li>• Price can be ‘market’ or fees expected for balance period</li> </ul>	<ul style="list-style-type: none"> <li>• “RECALL” orders entered</li> <li>• Price can be ‘market’ or fees the lender is willing to forego for balance period</li> </ul>
Custodial confirmation	Not required	Required
Margins	Dropped on early repayment	<ul style="list-style-type: none"> <li>• Margins equivalent to lending fee levied for matched txns</li> <li>• Released on completion of pay-in</li> </ul>
Settlement	Early Pay-In of securities prior to order entry	Settlement on T+1 day
























Source: NSE

Period	Top 10 Stocks traded (Based on lending fees)									
Jun-19	DHFL	TVSMOTOR	RELCAPITAL	JETAIRWAYS	MINDTREE	CUMMINSIND	PCJEWELLER	SBILIFE	JUSTDIAL	TORNTPOWER
May-19	JETAIRWAYS	PCJEWELLER	TVSMOTOR	VOLTAS	BAJAJ-AUTO	KOTAKBANK	PEL	PVR	ICICIBANK	DCBBANK
Apr-19	BAJAJ-AUTO	TVSMOTOR	JETAIRWAYS	IDEA	RBLBANK	PEL	IDFCFIRSTB	VGUARD	RELCAPITAL	COALINDIA

Source: NSE

## SLB Watch

Market Close As of 08-Jul-2019 16:59:34 IST 

Filter by:	Month	Aug-2019	OR	Security	Search for Symbol:		Filter	List of Securities   Trade Statistics							
Symbol	Best Bid		Best Offers		LTP	Underlying LTP	Futures LTP	Spread	Spread (%)	Open Postions	Annualised Yield (% p.a)	Volume	Turnover (lacs)	Transaction Value (lacs)	CA
	Quantity	Price	Price	Quantity											
CUMMINSIND	1,940	10.55	13.50	500	11.00	762.00	744.80	17.20	2.26	863,594	21.95	58,560	4.5735	437.8238	
RELCAPITAL	9,042	8.00	9.75	3,198	9.75	60.70	51.00	9.70	15.98	1,066,546	244.29	47,565	4.1049	34.2230	
RELINFRA	39,029	2.00	3.00	20,149	3.00	50.00	47.70	2.30	4.60	457,972	91.25	105,538	3.4405	57.1488	
DHFL	18,398	4.00	7.00	3,372	4.00	77.75	73.00	4.75	6.11	2,543,561	78.24	42,824	2.1969	36.0578	
EICHERMOT	500	21.00	30.00	25	30.00	19,083.55	18,930.00	153.55	0.80	13,727	2.39	3,550	1.6050	698.4660	
IDFCFIRSTB	430,000	0.16	0.20	50,448	0.15	42.10	41.85	0.25	0.59	2,725,216	5.42	346,216	0.6578	150.7771	
CHOLAFIN	10,000	1.00	2.00	1,750	2.00	277.35	276.00	1.35	0.49	486,305	10.97	32,500	0.6500	94.4450	
TORNTPHARM	800	7.00	8.50	617	7.00	1,534.00	1,518.55	15.45	1.01	172,200	6.94	7,200	0.5926	110.3148	
PVR	-	-	5.00	3,244	5.00	1,620.50	1,625.95	-5.45	-0.34	4,532	4.69	4,106	0.3827	69.0485	
NTPC	600	0.17	0.90	590	0.50	129.20	129.65	-0.45	-0.35	644,800	5.89	48,000	0.2400	65.7600	
ACC	-	-	2.00	644	2.00	1,507.00	1,513.70	-6.70	-0.44	11,371	2.02	6,103	0.1147	94.5263	
LT	2,750	0.27	0.44	5,039	0.44	1,492.35	1,476.55	15.80	1.06	59,500	0.45	38,500	0.1078	600.1341	
UBL	-	-	3.00	46,663	3.00	1,380.00	1,379.05	0.95	0.07	6,662	3.31	6,300	0.1065	87.1794	
OIL	-	-	1.75	901	1.75	168.45	167.15	1.30	0.77	10,199	15.80	3,399	0.0421	5.9567	
COLPAL	1,000	1.25	1.47	2,420	1.25	1,172.55	1,175.00	-2.45	-0.21	3,059	1.62	3,000	0.0375	35.3835	
KOTAKBANK	-	-	0.44	33,462	0.10	1,475.80	1,477.70	-1.90	-0.13	1,173,621	0.10	30,000	0.0300	455.1900	
IOC	-	-	0.20	12,623	0.10	144.20	144.60	-0.40	-0.28	1,987,681	1.05	22,377	0.0224	34.0802	
AXISBANK	-	-	-	-	0.10	784.45	788.00	-3.55	-0.45	73,600	0.19	12,000	0.0120	96.7440	
RAYMOND	-	-	2.40	35	2.40	711.95	710.00	1.95	0.27	849	5.13	849	0.0113	6.1960	
UNIONBANK	-	-	0.25	2,500	0.25	107.50	108.00	-0.50	-0.25	7,350	4.00	2,500	0.0000	6.0700	

- Transaction in SLB not a 'Transfer' under Indian Income Tax
- Securities Transaction Tax (STT) and SEBI Turnover Tax not applicable
- The lending fee earned from SLB transactions is considered as Business Income
- In case of closeout it would come under the purview of capital gain tax rules, as the closeout would be considered as sale of security.



# Thank You

## **Disclaimer**

*"The National Stock Exchange of India Limited is proposing, subject to receipt of requisite approvals, market conditions and other considerations, an initial public offer of its equity shares and has filed a Draft Red Herring Prospectus dated December 28, 2016 ("**DRHP**") with the Securities and Exchange Board of India ("**SEBI**"). The DRHP is available on the websites of SEBI and the BSE Limited at [www.sebi.gov.in](http://www.sebi.gov.in) and [www.bseindia.com](http://www.bseindia.com), respectively and of the Managers, Citigroup Global Markets India Private Limited at <http://www.online.citibank.co.in/rhtm/citigroupglobalscreen1.htm>, JM Financial Institutional Securities Limited at [www.jmfi.com](http://www.jmfi.com), Kotak Mahindra Capital Company Limited at <http://www.investmentbank.kotak.com>, Morgan Stanley India Company Private Limited at <http://www.morganstanley.com/about-us/global-offices/india/>, HDFC Bank Limited at [www.hdfcbank.com](http://www.hdfcbank.com), ICICI Securities Limited at [www.icicisecurities.com](http://www.icicisecurities.com), IDFC Bank Limited at [www.idfcbank.com](http://www.idfcbank.com) and IIFL Holdings Limited at [www.iiflcap.com](http://www.iiflcap.com). Investors should not rely on the DRHP for making any investment decision, and should note that investment in equity shares involves a high degree of risk, and for details see the section titled "Risk Factors" in the red herring prospectus, when available.*

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