FAQs for Securities lending and borrowing (SLB) scheme

The SLB scheme is facilitated by the National Securities Clearing Corporation of India (NSCCL), the clearing corporation of the National Stock Exchange of India (NSE), through a screen based exchange-traded system called SLB-NEAT. It has a centralized anonymous order book and all the borrowing and lending are cleared, settled and guaranteed. The expected lending fee is quoted as price and the tenures are available up to 12 months.

Q) Which securities are available for transactions in SLB?

Presently securities on which derivatives are available in the F&O segment are available for transactions in SLB.

Q) How can I register as a participant in SLB?

Any existing member/custodian of CM segment can register as a participant in SLB. The following are a requirement for registering as a participant

   i.   Application in writing to NSCCL on letter head of the clearing member

   ii. Enter into an agreement with NSCCL in the prescribed format which is referred to as "Part A" of the Master Agreement. The format for the agreement is provided in SLBM circular 10164 dated 30th Jan 2008.

   iii. Minimum deposit of Rs. 10 lacs to be given as demand draft favoring National Securities Clearing Corporation Ltd.

   iv. Board Resolution for becoming a participant in SLB.

   v.   Open an account with CDSL for SLB settlement.

Q) How can one participate in SLB?

In case of lending and borrowing on behalf of clients the participant should enter an agreement with the client as prescribed. The participant is also required to obtain a UCI code for the client after which the client can lend and borrow in SLB

The format for agreements and procedure for obtaining a UCI code is available in the SLBM circular 10164 dated 30th Jan 2008.

Q) Who all can participate in SLB?

SEBI has permitted all categories of Investors viz. Retail and Institutional to participate in SLB.

Q) How can a FII/MF register in SLB?

To register in SLB, the FII/MF needs to enter into an agreement with participants (members in CM segment) who are registered with NSCCL for SLB. The participant will obtain a Unique Client Id (UCI) for the FII/MF from NSCCL. The FII/MF also needs to appoint a custodian who will confirm and settle SLB transactions on behalf of the FII/MF. The custodian of the FII/MF shall obtain a Custodial Participant (CP) code for the FII/MF from NSCCL on providing requisite documents such as SEBI Registration certificate, PAN card copy etc.

The format for agreements and procedure for obtaining a UCI code is available in the SLBM circular 10164 dated 30th Jan 2008.

Q) Is there any Counterparty risk involved in SLB transactions at NSCCL?

NSCCL acts as a central counterparty providing financial settlement guarantee for SLB transactions. NSCCL has a robust risk management system and collects adequate margins from participants to cover counterparty risks.

Q) Will the lending/borrowing of securities under the Securities Lending Scheme will amount to "transfer" under clause (47) of section 2 of the Income-tax Act (Act) in the hands of the lender?

As per the clarification from Income Tax vide their circular no. 2/2008, dated 22-2-2008 transactions done in the SLB shall not be regarded as transfer. For further details, please refer circular no. 2/2008, dated 22-2-2008 of the income tax department.

Q) What is the tenure for SLB transactions?

The tenure for SLB transactions is up to 12 months. 12 fixed monthly tenures with fixed reverse leg settlement dates are available for transactions in SLB. The fixed settlement dates are the first Thursday of the respective month and the date is displayed on the NEAT SLB trading screen at the time of order entry. Each month is assigned a series to it with January having series as 01 up to December having series as 12.

Q) How shall one quote the lending fee?

Lending fee is quoted on per share basis. Lending fee may be quoted based on the annualized yield expected by the lender or the cost which the borrower expects to pay. For e.g. If the lender is lending shares for a period of 180 days he could quote lending fee per share which is based on the rate of return expected by the lender.

Q) What is the settlement cycle for a SLB Transaction?

T Day: The Transaction is executed on T Day between the lender and borrower.

T+1 day: The Lenders are required to deliver the securities for pay-in on T+1 day. Securities are thereafter transferred to the borrowing participants during pay-out on T+1 day. The borrower shall bring the lending fee on T+1 which shall be passed on to the lender in the funds pay-out.

Reverse leg settlement date: The borrower needs to deliver the securities at the time of pay-in which shall be returned back to the lender during the pay-out.

Q) What are the various margins applicable to the borrower & lender on T Day?

a) In case of borrower only the lending fee is levied upfront as margin.

b) In case of lender, 25% of the lending price (T-1 cash market closing price) and Mark to market (MTM) at end of day are charged to the lender. These margins are not applicable to lender in case if lender does Early Pay-in of securities.

Q) What margins are applicable to the borrower & lender from T+1 to Reverse leg settlement day (Reverse Leg)?

a) No margins are levied on the lender

b) 100% of lending price, Value at Risk margins, Extreme Loss Margins (same as applicable in Cash market for buying or selling a security) and EOD MTM are levied on the borrower.

Q) What form of collaterals can be provided towards margin requirement?

The margins are collected from the collaterals of participant/custodian. Participant/Custodian can provide collaterals in form of cash, fixed deposit or bank guarantee.

Q) What is early recall of securities by the lender?

A participant having an existing lend position can recall a position by entering a recall order on the trading terminal. The lender shall quote the lending fee it wishes to forego for the balance period. In case the order is matched successfully then the settlement of the early recall transaction happens on a T+1 basis. After successful completion of pay-in, the position of the lender would cease to exist.

Recall orders can be entered upto 3 days prior to the respective reverse leg settlement day.

Q) What is early repayment of securities by the borrower?

A participant having an existing borrow position can repay the securities to NSCCL. On receipt of securities the margins levied on borrower are immediately released. The borrower can further lend the securities for the balance period of the tenure. For this the borrower needs to enter a repay order on the trading terminal by selecting order type as "Repay". The borrower shall quote the fee he expects to receive for the

balance period. In case the order is matched successfully then the settlement of the early repay transaction shall happen on a T+1 basis. After successful completion of pay-in the position of the borrower shall cease to exist. Repay orders can be entered up to 3 days prior to the respective reverse leg settlement day. The orders can also be entered for partial quantity.

Q) What action is taken if the lender fails to deliver securities on T+1 day?

The transaction shall be financially closed out at the below rate i.e. higher of

- 25% of closing price of the security on T+1 day (closing price for the security in the capital market segment of NSE), or

- (Maximum trade price of the security in the capital market segment of NSE from T to T+1 day) - (T+1 day closing price of the security in capital market segment of NSE)

Q) What action is taken if the borrower fails to bring the funds/collaterals on T+1?

The transaction shall be cancelled, however, the lending fee shall be collected and passed on to the lender.

Q) What action is taken if the borrower fails to bring securities at the time of reverse leg settlement?

If the borrower fails to deliver the securities NSCCL conducts a buy-in auction to acquire the securities on the reverse leg settlement date. If securities are not available in auction then the transaction is financially closed out at the below mentioned close out rate i.e. higher of

- Maximum trade price in the capital market segment of NSEIL from (reverse leg settlement day – 1 day) to reverse leg settlement day, or

- 25% above the closing price of the security in the capital market segment on the reverse leg settlement day.

Q) Are there any position limits applicable in SLBM?

Yes position limits are applicable in case of SLBM. Following are the current limits applicable

Market Wide Position Limits: 10% of the free-float capital of the company in terms of number of shares i.e. 10% of the number of shares held by non-promoters in the relevant security.

Participant/ FII/MF Position limits: Lower of 10% of the market-wide position limits (No of shares) or Rs. 50 crs.

Client Level Position Limits: should not be more than 1% of the market-wide position limits.

Q) What action is taken in case of Corporate Actions?

In case of Corporate Actions other than dividend and stock spilt, transactions are foreclosed 2 days prior to ex-date or as prescribed by NSCCL from time to time.

For dividends the dividend would be collected from the borrower and passed on the lender at the time of book closure/record date. In respect of stock split the borrower's obligation would be revised as per the proportionate spilt and would be passed on to the lender during the reversal leg.