

Info Capsule

REVIEW OF SECURITIES LENDING AND BORROWING (SLB) FRAMEWORK¹

1. The framework for Securities Lending and Borrowing (SLB) was specified, vide SEBI circular no. MRD/DoP/SE/Dep/Cir-14/2007 dated December 20, 2007, and operationalized with effect from April 21, 2008.

The SLB framework has been revised based on the feedback received from the market participants.

2. Pursuant to the feedback received from the stock exchanges and other market participants and in consultation with the Secondary Market Advisory Committee (SMAC), the framework for SLB is now modified as under:

Tenure of the Contract

- 3 SEBI Circular MRD/DoP/SE/DeP/Cir-01/ 2010 dated January 6, 2010, allows the Approved Intermediaries (AI) to decide the tenure of the contract subject to the condition that the maximum period of the contract is not more than 12 months. In this regard, it is clarified that AIs can introduce contracts of different tenures ranging from 1 day to 12 months based on the need of the market participants.

Position Limit in SLB

4. Para 12 of Annexure 2 of SEBI Circular MRD/DoP/SE/DeP/Cir-14/ 2007 dated December 20, 2007, stands modified as under:
 - a. Position limits shall be as under:
 - I. The market wide position limit for SLB transactions shall be 10% of the free-float capital of the company in terms of number of shares;
 - II. No clearing member shall have open position of more than 10% of the market-wide position limit. The position limit for an Institutional Investor shall be the same as that for a clearing member;
 - III. The client level position limit shall not be more than 1% of the market-wide position limit.

Treatment of Corporate Actions during SLB

5. Para 2 of Circular MRD/CoP/SE/Cir-31/2008 dated October 31, 2008 and Para 1 of Circular no. CIR/MRD/DP/33/2010 dated October 07, 2010 stand modified as under:

Details of treatment of corporate actions during the contract tenure are specified below:

- I. Dividend: The dividend amount would be worked out and recovered from the borrower on the book closure/ record date and passed on to the lender.

¹ Available at: http://www.sebi.gov.in/legal/circulars/nov-2017/circular-on-review-of-securities-lending-and-borrowing-mechanism_36609.html

- II. Stock split: The positions of the borrower would be proportionately adjusted so that the lender receives the revised quantity of shares.
- III. Other corporate actions such as bonus/ merger/amalgamation / open offer, etc: The contracts would be foreclosed on the Ex-date. The lending fee would be recovered on a pro-rata basis from the lender and returned to the borrower.
- IV. AGM/EGM: In the event of the corporate actions which is in nature of AGM/EGM, presently the AIs are mandatorily foreclosing the contracts. It has been represented by market participants that mandatory foreclosure during the life of the contract may not be necessary as, all lenders may not be interested in taking part in the AGM/EGM. It has therefore been decided that the AIs shall provide the following facilities to the market participants:
 - a. Contracts which shall continue to be mandatorily foreclosed in the event of AGM/EGM.
 - b. Contracts which shall not be foreclosed in the event of AGM/EGM.

Rollover Facility

6. Para 1.1 of Circular CIR/MRD/DP/30/2012 dated November 22, 2012 on Introduction of roll-over facility stands modified as under:
 - a. Any lender or borrower who wishes to extend an existing lent or borrow position shall be permitted to roll-over such positions i.e. a lender who is due to receive securities in the pay out of an SLB session, may extend the period of lending. Similarly, a borrower who has to return borrowed securities in the pay-in of an SLB session, may, through the same SLB session, extend the period of borrowing. The roll-over shall be conducted as part of the SLB session.
 - b. The total duration of the contract after taking into account rollovers shall not exceed 12 months from the date of the original contract. It is clarified that multiple rollovers of a contract by the lender or borrower is permitted.
 - c. Roll over shall not permit netting of counter positions, i.e. netting between the 'borrowed' and 'lent' positions of a client.
7. Pursuant to the applicability of this Circular, SEBI circular CIR/MRD/DP/33/2010 dated October 07, 2010 shall stand withdrawn. The provisions of SEBI circular no. MRD/DoP/SE/Dep/Cir-14/2007 dated December 20, 2007, circular no. MRD/DoP/SE/Cir-31/2008 dated October 31, 2008, Circular SEBI/MRD/DoP/SE/Dep/Cir-01/2010 dated January 06, 2010, CIR/MRD/DP/30/2012 dated November 22, 2012, CIR/MRD/DP/18/2013 dated May 30, 2013 and CIR/MRD/DP/19/2014 dated June 03, 2014, other than that specified in this circular, shall continue to be applicable.
8. The circular shall come into force with effect from January 1, 2018.
9. Stock Exchanges, Clearing Corporations and Depositories are directed to:
 - I. Take necessary steps to put necessary systems in place for the implementation of the above provisions of this circular.
 - II. Make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.

- III. Bring the provisions of this circular to the notice of the stock brokers/trading members, clearing members and depositories participants and disseminate the same on their website.
10. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, and Section 19 of the Depositories Act, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Team ICSI

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