

A photograph of the National Stock Exchange (NSE) building in Mumbai, India. The building is a modern, multi-story structure with a facade of grey panels and large glass windows. The Indian national flag is flying from a pole in front of the building. The sky is blue with some white clouds.

# Securities Lending and Borrowing

January 2011

# Securities Lending and Borrowing (SLB)

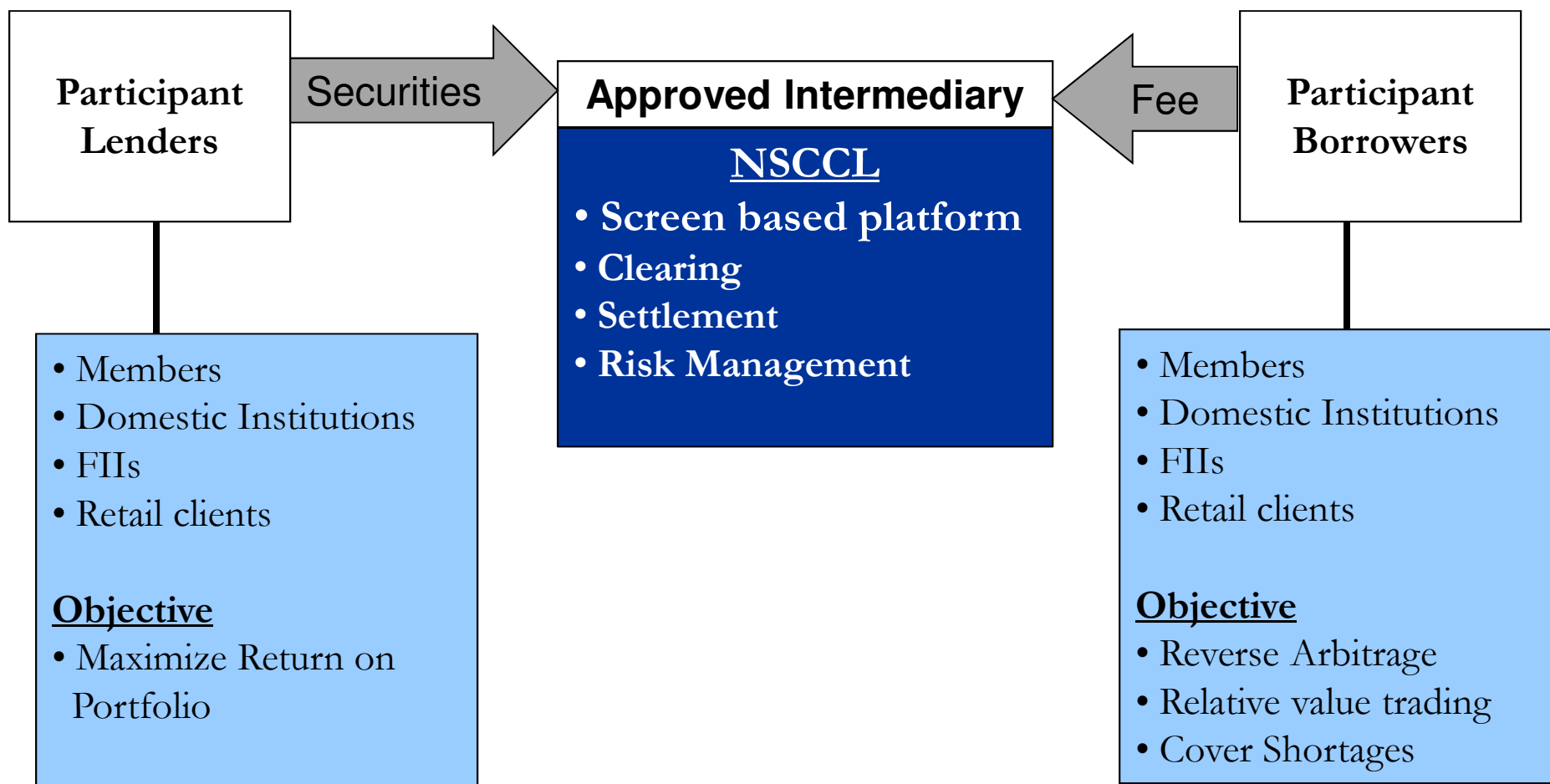
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## *What is SLB?*

- A loan of securities by a lender to a borrower for an agreed period
- The lender earns lending fee on securities lying idle
  - Maximize returns of the portfolio
- Borrower would use SLB to facilitate SLB trading strategies

# SLB process flow



# Key features of the SLB scheme

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- On-line matching
- On all derivative stocks
- Anonymous order book
- Settlement Guarantee
- Period of lending upto 12 months
- Facility of early recall of securities
- Early repayment by borrowers with facility to re-lend

# SLBS- Order Matching Platform



<b>Particulars</b>	<b>Details</b>
<b>Market timings</b>	9.15 am-3.30 pm
<b>Trading Terminal</b>	SLB - NEAT
<b>Market Type</b>	Normal Market
<b>Operating range</b>	40%
<b>Permitted lot size</b>	1
<b>Tick Size</b>	Rs 0.01
<b>Trade Price</b>	Lending fees
<b>Eligible Securities</b>	F&O Securities
<b>Series</b>	01 up to 12 depending on the month of reverse leg settlement

# Tenure of Lending



- 12 monthly tenures available any time
- Identified by series number which indicates the reverse leg settlement month
- Fixed reverse leg settlement dates being the first Thursday of the reverse leg settlement month

Series No	Month of reverse leg settlement
01	Jan-2011
02	Feb-2011
03	Mar-2011
04	Apr-2011
05	May-2011
06	Jun-2011
07	Jul-2011
08	Aug-2011
09	Sep-2011
10	Oct-2011
11	Nov-2011
12	Dec-2011

# Schedule of activities



Activity	Timings/Schedules
<b>Lending Day</b>	
Lending/Borrowing Session	9:15 am– 3:30 p.m
Custodial Confirmation	6:00 p.m
Final Obligation to participants	7:00 p.m
<b>First leg settlement</b>	T+1 day
Pay-in	09:30 a.m
Pay-out	11:30 a.m
<b>Reverse Leg Settlement</b>	Reverse leg settlement date ( R )
Pay-in	09:30 a.m
Pay-out	11:30 a.m
Auction for shortages	R day
Auction pay-in & pay-out	R+1 day
Financial close out	R+1 day

# Risk Management & Collateral



Particulars	Applicable Margins
<b>T Day - Borrower</b>	100% of LF*
<b>T day - Lender</b>	25% of LP** + MTM at EOD
	In case of Early Pay-in of securities no margins are levied
<b>From T+1 day to R^ day - Borrower</b>	100% of LP + VaR + ELM (Cash segment) + MTM at EOD
*LF- Lending Fee (Traded price in SLB)	
**LP- Lending Price (Previous day closing price in cash segment)	
^R- Reverse leg day of the contract	

**Accepted form of Collaterals:** Cash, Fixed Deposit Receipts and Bank Guarantees



# Position Limits



- **Market Wide Position Limit (MWPL)** - 10% of the number of shares held by non-promoters in the relevant security
- **Participant/FII/MF limit** - 10% of MWPL or Rs. 50 crores whichever is lower
- **Client level limits** - 1% of MWPL
- The applicable limits are also displayed on NSE website

## Early Recall facility for Lenders



- Enter recall request on the trading terminal by selecting RECALL option
- Price may be 'market' or the fees that the lender is willing to forego for the balance period
- If order matched, lending fee is levied as margin and details of the successful recall transaction are sent to participant
- Pay in of the recall fee on RC+1 day & Securities received as pay out
- End of transaction for the lender

# Early Repayment facility for Borrowers



- Participant makes an early repayment of securities in NSCCL's early repayment account with NSDL/CDSL and subsequently provides details of the same to NSCCL
- No margins applicable for early repayment and margins for the original borrow transaction are dropped
- Price quoted may be 'market' or the fees expected for the balance period
- If REPAY(RP) request is successful, on RP+1 day the securities received in the repayment account are allocated towards pay-in and the borrower receives the lending fee as pay out
- The original transaction ceases to exist after successful completion of the settlement on RP+1 day

# Corporate Actions



- **Dividend**

Dividend amount is collected from borrower and passed on to the lender

- **Stock split**

Position of borrower is proportionately adjusted and the lender receives the revised quantity on return

- **Other Corporate Actions**

Transactions are foreclosed 2 days prior to ex-date.

- **Shut Period**

In case of all corporate actions, a security shall not available for transactions during the shut period for corporate actions

# Applications of SLB



- **To earn lending fee on your securities**

**Strategy-** Lend securities in SLB and earn additional income

- **To Short sell in cash segment**

**Strategy-** Sell security in cash segment and borrow in SLB

- **Arbitrage:** To take advantage of reverse arbitrage opportunities

# Securities Lending and Borrowing (SLB)



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THANK YOU