



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Securities Borrowing and Lending of RENTAS Securities**

Applicable to market participants, including:

1. Licensed banks
2. Licensed investment banks
3. Prescribed development financial institutions

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## **PART A OVERVIEW**

### **1 Introduction**

- 1.1 Securities Borrowing and Lending (SBL) involves a loan of securities from one party to another for a limited period of time, in exchange for a lending fee and collateral. The objective of SBL is to enhance the liquidity in the secondary bond market especially for benchmark or actively traded securities by providing mechanisms to increase market liquidity, market making activities and also to enhance the return on bond portfolio investment.
- 1.2 This policy document aims to provide the regulatory requirements to govern the conduct and obligations of market participants who enter into SBL transactions in respect of the RENTAS Securities. It aims to assist market participants in understanding and complying with the regulatory framework that governs the SBL market and stipulates the terms and conditions, procedures and practices which market participants in the SBL market must observe.

### **2 Applicability**

- 2.1 This policy document is applicable to all market participants as defined in paragraph 5.2.
- 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 sections 140 and 143 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 2 December 2022.

### **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 purposes of this policy document:

“S”	denotes a standard, an obligation, a 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;
“agent”	refers to a market participant, generally an interbank institution or an approved money broker, who executes deals on behalf of its clients pursuant to the clients’ mandate and without taking on market risk in connection with the deals;
“Borrower”	refers to a market participant who borrows the RENTAS Securities from a Lender in a SBL transaction;
“collateral”	refers to any other RENTAS Securities except the loaned RENTAS Securities as being acceptable or any combination thereof as agreed between the parties and which are delivered by the Borrower to the Lender;
“Lender”	refers to a market participant who loans the RENTAS Securities to a Borrower in a SBL transaction;
“market participant”	refers to licensed banks, licensed investment banks, prescribed development financial institutions and any other person which enters into a SBL transaction in respect of the RENTAS Securities;
“ownership”	refers to the title, coupon, interest, dividend and any other rights attached to the RENTAS Securities, if any;
“principal”	refers to a market participant who transacts for its own account and not acting as an agent;
“RENTAS”	refers to the Real-Time Electronic Transfer of Funds and Securities System which is the real-time gross settlement system;
“RENTAS Securities”	refers to Ringgit-denominated debentures, bills, notes, bonds and any other debt securities deposited in the RENTAS system;

“SBL transaction”	refers to any borrowing and lending of the RENTAS Securities for a limited period of time, in exchange of collateral and lending fee;
“SSDS”	refers to the Scripless Securities Depository System; and
“SSDS participants”	refers to the participants in the RENTAS system that are permitted to hold the RENTAS Securities for their own account and, if applicable, on behalf of their clients.

## **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 issued by the Bank as amended from time to time, in particular:
- (a) Code of Conduct for Malaysia Wholesale Financial Markets issued on 31 December 2021 (BNM/RH/PD 028-43);
  - (b) Participation Rules for Payments and Securities Services issued on 1 August 2022 (BNM/RH/PD 028-26);
  - (c) Operational Procedures for Securities Services issued on 1 August 2022 (BNM/RH/PD 028-49);
  - (d) Policy Document on Single Counterparty Exposure Limit issued on 9 July 2014 (BNM/RH/GL 001-38);
  - (e) Policy Document on STATsmart Reporting – Financial, Compliance, and Industry Specific Data issued on 1 June 2022 (BNM/RH/PD 028-59); and
  - (f) Foreign Exchange Policy Notices issued on 1 June 2022.

## **7 Policy Document superseded**

- 7.1 This policy document supersedes the Policy Document on Securities Borrowing and Lending of RENTAS Securities issued on 1 July 2016.

## PART B POLICY REQUIREMENT

### 8 General requirements

- G** 8.1 The conduct of SBL transactions should be in line with the principle of professionalism and integrity, as outlined under the Principles for a Fair and Effective Financial Market for the Malaysian Financial Market issued by the Bank on 17 October 2017 as amended from time to time, in order for the SBL market to operate in a sound and orderly manner.
- S** 8.2 The Lender and Borrower must not in any circumstance enter into SBL transactions which limit the availability of RENTAS Securities with the intention of creating a false and distorted market in the RENTAS Securities.
- S** 8.3 At least one principal to a SBL transaction must be a licensed bank or licensed investment bank.
- S** 8.4 Non-residents, as defined under section 213 of the FSA are only allowed to act as Lender in any SBL transaction.
- S** 8.5 Notwithstanding paragraph 8.4, non-residents registered with the Bank under the Dynamic Hedging Framework are allowed to act as Borrower in any SBL transaction. A non-resident acting as Borrower must comply with the applicable plain vanilla forward contract limits based on the non-resident's Ringgit exposure under the Dynamic Hedging Framework as amended from time to time.
- S** 8.6 Licensed banks and licensed investment banks must not in any circumstance facilitate non-residents to enter into any SBL transaction or accept collateral which involves the RENTAS Securities in contravention of paragraphs 8.4 and 8.5.
- S** 8.7 The ownership of the loaned RENTAS Securities and collateral must be transferred for all SBL transactions.
- S** 8.8 The maximum tenor of a SBL transaction shall be 1 (one) year.
- G** 8.9 The standard lot for a SBL transaction is RM10 million. Lender and Borrower who wish to transact for a different amount may specify the amount when requesting for, or providing, quotes.
- S** 8.10 Prior to undertaking SBL transactions, licensed banks and licensed investment banks must ensure that:
- (a) only dealers authorised by the licensed banks and licensed investment banks undertake SBL transactions;
  - (b) a list of dealers authorised by the licensed banks and licensed investment banks is maintained and updated from time to time;
  - (c) policies, procedures and internal controls are established to ensure that any SBL transaction including selection of the RENTAS Securities has been properly authorised; and

(d) infrastructures are put in place to support SBL transactions, including systems for securities valuation and management, credit control, risk management and record keeping purposes.

- S** 8.11 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 RENTAS Securities can 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 RENTAS Securities on behalf of their clients.
- S** 8.12 All SBL transactions involving the RENTAS Securities must be settled through the RENTAS system.

## **9 Mechanism**

- S** 9.1 A SBL transaction must consist of the following elements:
- (a) the borrowing of the RENTAS Securities for a limited 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 RENTAS Securities;
  - (d) there is a transfer of ownership of the RENTAS 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 loaned RENTAS Securities;
  - (e) the Borrower and/or the Lender is entitled to the value of the coupon payments on the collateral and/or the loaned RENTAS Securities for the duration of the SBL transaction;
  - (f) the Lender and/or the Borrower may recall the loaned RENTAS Securities or the collateral at any time during the duration of the SBL transaction after serving adequate notice, which may be 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 borrowed RENTAS Securities to the Lender and the Lender will return the collateral to the Borrower.
- G** 9.2 The procedures of a SBL transaction are summarised in Appendix 1.
- G** 9.3 The lending fee is computed based on the following:
- (a) number of days the RENTAS Securities is being loaned;
  - (b) lending rate; and
  - (c) market value of the loaned RENTAS Securities.
- G** 9.4 The formula for calculating the lending fee is set out in Appendix 2.
- S** 9.5 The Borrower shall only use RENTAS Securities as collateral under the SBL transaction.
- S** 9.6 The Borrower shall not use cash as collateral under a SBL transaction, as cash collateral transactions will be classified as reverse repo transactions.

- G** 9.7 For purposes of margin maintenance, RENTAS securities or cash may be used to post margin.
- G** 9.8 Either party may terminate the SBL transaction by giving sufficient notice to the other party, together with the instructions to reverse the original delivery process.
- G** 9.9 An early termination fee may be imposed, as agreed by both parties in the SBL agreement. The lending fee may be apportioned accordingly to the actual holding period of the SBL transaction.

## **10 Legal agreement**

- S** 10.1 All SBL transactions must be subject to the Global Master Securities Lending Agreement (GMSLA) (the “Agreement”) that specifies all terms and conditions of the SBL transactions and the duties and obligations between the parties concerned in accordance with the requirements of this policy document.
- G** 10.2 At minimum, the Agreement should provide for:
- (a) absolute transfer of ownership of the loaned RENTAS Securities from the Lender to the Borrower and ownership of the collateral from the Borrower to the Lender, including any security transferred through substitutions or mark-to-market adjustment;
  - (b) marking-to-market of transactions;
  - (c) use of haircut and margin maintenance whenever the mark-to-market reveals material change in value;
  - (d) early termination clauses and the early termination fee that the parties may be subject to;
  - (e) events of default and the consequential rights and obligations of the parties to the SBL transactions including provision on close-out netting;
  - (f) full set off of claims between parties to the SBL transaction in the event of default; and
  - (g) the governing law of the Agreement as agreed between the parties.

## **11 Risk management**

- S** 11.1 Licensed banks and licensed investment banks must establish a risk management framework which enables identification, measurement and continuous monitoring of all relevant and material risks arising from SBL transactions, taking into account their financial capacity to assume such risks prior to a SBL transaction.
- S** 11.2 Licensed banks and licensed investment banks must formulate and implement risk management measures to address risks arising out of SBL transactions. These measures must include counterparty credit assessment, net counterparty exposure limits and adoption of risk mitigation techniques which involve the use of prudent haircuts, margin maintenance and timely margin call to maintain effective control of risk exposure.

**12 Reporting and Settlement**

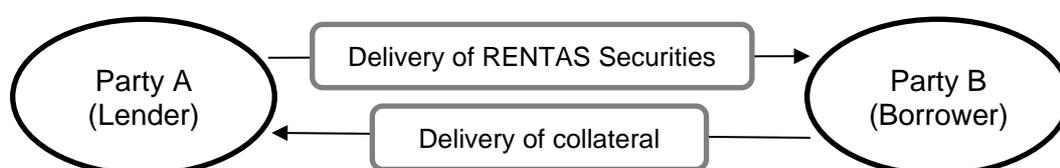
- S** 12.1 Licensed banks and licensed investments banks which act as principal to a SBL transaction must report to Bursa Malaysia Electronic Trading Platform.
- S** 12.2 Licensed banks and licensed investment banks must disclose the details of the SBL transactions in the Bank's Statistical Mart for Analysis and Reporting (STATsmart).
- S** 12.3 Settlement of SBL transactions must be treated as "Lending/Borrowing" under the SSDS module in RENTAS.
- S** 12.4 The SSDS module shall facilitate the SBL transactions under the "delivery-versus-delivery" method and exchange of RENTAS Securities between the parties shall take place simultaneously on value and maturity dates.
- S** 12.5 SBL transactions which uses RENTAS Securities for margin maintenance must be settled through RENTAS.
- G** 12.6 Cash margin may be transferred via RENTAS or any other mode of transfer as agreed by the parties to the SBL transaction.

**APPENDIX 1 Procedures of a SBL transaction**

**Step 1:** The Lender and Borrower undertakes or enters into SBL transactions via approved money brokers or through direct dealing.

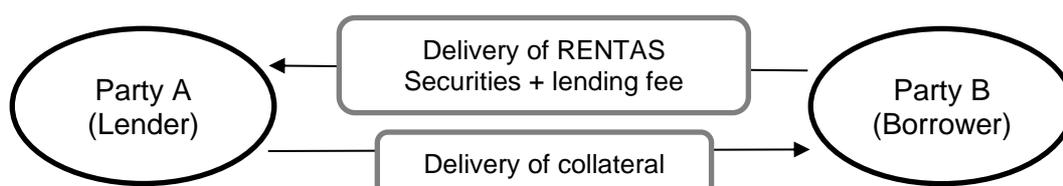
**Step 2: SBL transaction initiation: Exchange of RENTAS Securities on value date**

On value date, the Borrower initiates the SBL transaction by transferring the collateral to the Lender together with the ownership of such collateral. The Lender simultaneously delivers the RENTAS Securities as agreed in the SBL transaction to the Borrower together with the ownership of the loaned RENTAS Securities.



**Step 3: SBL transaction maturity: Exchange of RENTAS Securities on maturity date**

On maturity date, the Borrower returns the borrowed RENTAS Securities and pays a lending fee to the Lender. The Lender simultaneously returns the collateral to the Borrower. The ownership of the RENTAS Securities involved reverts to the original owner on maturity date.



**APPENDIX 2      Formula for lending fee****Market value**

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

**Lending Fees**

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