

Agency Lending Programme

Product Guide

Agency Lending Programme Product Guide

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Foreword

This Guide (the “Product Guide”) describes the Clearstream Banking Agency Lending programme (the “Programme”) as defined in the Clearstream Banking Umbrella Agency Agreement (the “Agency Agreement”), as amended from time to time. The Agency Agreement contains definitions of terms used herein with an initial capital letter.

This Product Guide is a Governing Document as defined in Clearstream Banking's General Terms and Conditions. In the event of any conflict between Clearstream Banking's General Terms and Conditions and this Product Guide and other Governing Documents, the General Terms and Conditions shall prevail.

This Product Guide describes the service step-by-step from the perspective of the Lender.

- [“Overview”](#) on page 1 highlights the role of Clearstream and that of the Lender in the Programme and the unique features and benefits of the service for Lenders.
- [“Credit risk”](#) on page 3 provides a complete understanding of how the Lender manages its own risk within the Programme. It also summarises how the collateral agent minimises Lender's risk.
- [“Getting started”](#) on page 4 provides generic information about the Programme and describes the steps needed to become a Lender in the Programme.
- [“Operation of the Programme”](#) on page 4 provides an illustration of the life cycle of a loan.
- [“Billing”](#) on page 8 explains the mechanics of how Clearstream Banking pays the Lender for the service.
- [“Glossary”](#) on page 9 provides definitions of terms associated with the service.

All documents mentioned and referenced in this Product Guide can be found on the Clearstream Banking website, www.clearstream.com, under:

Key documents / ICSD / Global Securities Financing

Note: All times shown in this Guide are Central European Time (CET).

Legal aspects

The governing documents for the Programme are the Umbrella Agency Agreement (the “Agency Agreement”) and the Collateral Management Service Agreement for Collateral Receivers and its side letter. The agreements are governed exclusively by Luxembourg law, which means that they benefit from clear, efficient and protective laws on securities.

Features of the agreement include:

- Clearstream Banking acting as Lending and Collateral Agent in all loans;
- Clearstream negotiating the contracts with the borrowers on behalf of the Lender; and
- Transfer of Title on the Collateral for Lender.

Agency Lending Programme

Client Services

The daily administration of the Programme is handled by a dedicated team in Luxembourg as follows:

Group telephone: +352-243-38112
Group fax: +352-243-38201
Group email: strategiclending@clearstream.com
SWIFT address: CEDELULL

The operations centre is open from 03:00 to 20:00 Central European Time.

Contact

For further information about this Product Guide, or if you have specific questions regarding Clearstream Banking's Agency programme, please contact your local Global Securities Financing Sales team.

strategiclending@clearstream.com
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Alternatively, please contact your Customer Service or Relationship Officer.

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Overview

The Programme provides Customers with the opportunity to enhance the revenues that can be realised as a Lender by offering access to the wholesale trading market. This market is driven by demands for strategic lending rather than for lending of last resort for automatic failing trades. The Programme is a dynamic service designed to increase Lender revenues by matching the high demand in this market with the supply available from Lender portfolios.

Figure 1 below shows a simplified model of the Programme identifying the key elements and participants.

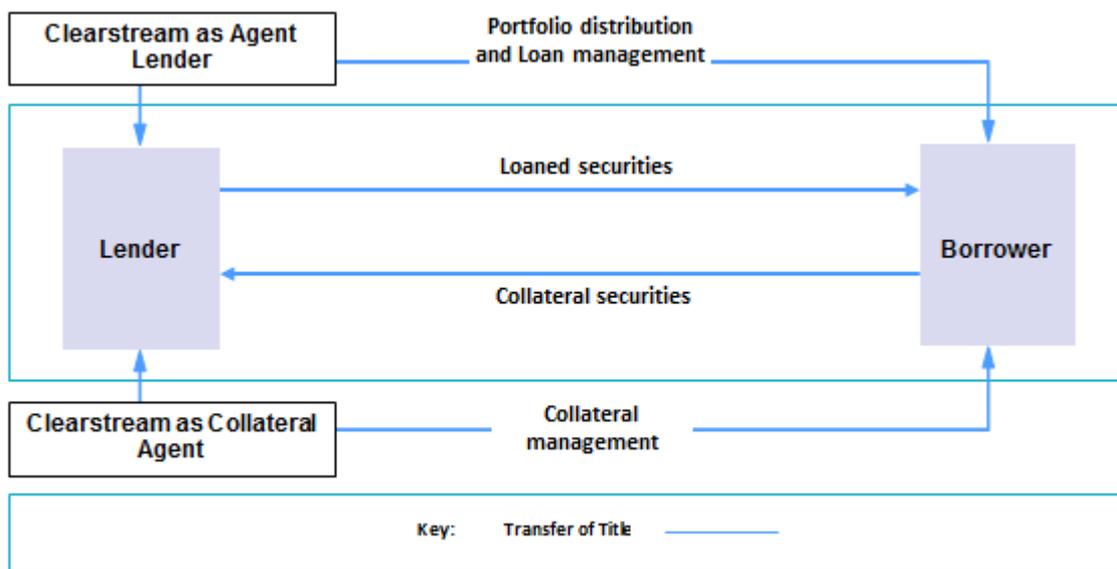


Figure 1. Key Participants and elements of the Programme

Role of the Lender

The Lender manages its counterparty risk as follows:

- Selects its counterparties and imposes credit limits by counterparty; and
- Chooses its collateral eligibility criteria, the haircuts and the concentration limits.

Role of Clearstream Banking

Clearstream Banking fulfils a facilitating role in the Programme as follows:

- Acts as lending and collateral agent for the Lender in accordance with the Legal Agreements; and
- Provides a secure Settlement environment.

Benefits and features

In a pure agency lending business, where the lenders manage their own counterparty risk, they generally benefit from **enhanced lending revenues** compared to lending businesses based on a principal model - that is where the counterparty risk is externalised with a third party. This gives not only an improved fee split between the Lender and their Agent Lender, but also the ability for the Lender to decide about their own business/risk scope, and for them to react quickly to the market, seizing the latest trends.

In addition to this main benefit, the following **advantages** are gained while lending through the Programme:

- Increased portfolio yield, plus custody fees waived on lent positions;
- Full rights to income proceeds retained by Lenders;
- Collateral Value of the loaned Securities retained by Lenders; and
- Anonymity is preserved at trading level. The Lender is only disclosed to a designated person within the borrower; e.g. risk person.

As an **Agent Lender**, Clearstream Banking negotiates the legal contracts on behalf of the Lender, actively distributes the Lender's portfolio and manages all the operational aspects:

- Single legal relationship and agreement with Clearstream acting as lending agent and negotiating the borrowers' contract on behalf of the Lender;
- Optimised distribution to Clearstream Banking community of borrowers through dedicated close-to-market desks negotiating the best possible rates on behalf of Lenders as well as an automated distribution via a securities lending trading platform;
- Rates are negotiated on a loan-by-loan basis. Rates are lower than those of ASL for fails lending, but loans are larger and of longer duration;
- Automated securities administration reducing overhead costs for Lenders with Clearstream Banking managing all administrative and operational functions on the principal and the collateral. High level of automation with no IT cost for the Lenders;
- Automatic Recall procedure that takes into consideration matched and unmatched pending delivery instructions for Lenders and unmatched receipt instructions for Lender's counterparties or where Lenders have specifically requested the return;
- Flexibility and freedom as Clearstream Banking gives Customers the opportunity to further restrict their lending activity for as little, or as long, as they want by using the profile options;
- Daily and monthly reports, using flexible communication options including SWIFT and CreationOnline; and
- Agency Lending Disclosure' (ALD) compliant service. ALD is an ISLA recommendation. It provides industry standards for agent Lenders and broker-dealers. It supports the broker dealers in the approval process of the underlying principal Lenders and in their daily calculation of regulatory capital requirements. Some broker-dealers will only trade with ALD compliant Agent Lenders. It is mandatory for SEC registered broker-dealers.

As a **Collateral Agent**, Clearstream Banking manages the collateral related to the loans:

- Lenders receive a Transfer of title on the collateral;
- Reduced risk as all loans are fully collateralised and monitored daily by Clearstream Banking acting as collateral agent; and
- Loans and Collateral are marked-to market daily.

Credit risk

Counterparty risk

The Lenders are facing the borrowers, counterparty risk wise.

Credit limits

The Lenders impose credit limits by counterparty.

Collateral eligibility criteria

The Lenders decide on the collateral eligibility criteria, the haircuts and the concentration limits. They can do so by completing the Appendix A of the CMSA in accordance with the guidance provided in the side letter to the CMSA for collateral receivers.

They also have the possibility to unilaterally modify the Collateral Eligibility Criteria from time to time.

Coverage Value

The Coverage Value of a security on loan is equal to the market value of the security.

Collateral Value

The Collateral Value of a security is the market value minus a certain percentage, commonly called the haircut.

Collateral Type

Lenders receive a Transfer of Title on the collateral.

Collateral maintenance

Positions used as collateral are reviewed in accordance with fluctuations in market values. While the loan is outstanding, all collateral is marked to market daily, including collateral top-ups and returns.

Getting started

Account setup and participation level

To take advantage of the Programme, the Customer signs the Umbrella Agency Agreement. The Lender makes Securities available for lending that can be used without prior consultation with the Lender.

If a Lender wants to limit lending from their portfolio, they can do so by completing the Lender Profile authorisation form, which can be found on the Clearstream website. This allows profiling to be specified at several levels.

Operation of the Programme

Opening a loan

At trade date, the terms of the loan, including the value that is used for billing purposes and the lending rate are decided and, unless otherwise specified, this value and rate shall remain for its duration.

At settlement date, the settlement instructions are generated and securities required for loan are debited from the Lender's Account for execution of the loan and delivered to the Borrower's account through book entry in Clearstream Banking, via transit account 57710 (see [Figure 2](#)). The loan will be attributed a loan identifier. Lenders will be notified of the loan opening via a free of payment (FOP) instruction.



Figure 2. Loan opening

For an explanation of loan reporting, please see the Clearstream Banking Reporting Guide.

Loan maintenance

Partial reimbursement of a loan

If a Lender receives part of the loaned Securities back during the life cycle of a loan, an FOP instruction will be sent to the Lender debiting transit account number 57710 and crediting the Lender's account with the loaned amount. The loaned amount and the loan value will be reduced, but the Loan Number will remain unchanged. Fees will be calculated accordingly.

Recall timelines

A Recall is triggered by the Lender's notification to Clearstream Banking by authenticated means of communication, upon the Lender's matched/unmatched delivery instruction or the receipt instruction for the Lender's counterparty (no earlier than three Business Days before the requested settlement date of the instruction).

The Recall Period is determined as follows:

- Recalls triggered **before** 10:45 CET start on the same day.
- Recalls triggered **after** 10:45 CET start on the following Business Day.

In [Figure 3](#):

T: Trade date - the date on which the Lender instruction is input.
 Start Date: Date on which the Recall Period is due to start.
 End Date: Date on which the Recall Period is due to end.

Lender instruction input on T	T	T+1	T+2	After end of Recall Period
before 10:45 ^a	Start Date	End Date ^b		
after 10:45 ^a		Start Date	End Date ^b	

a. For U.S. Securities, this deadline is 15:00 CET.

b. For U.S. Treasury, European Economic Area and Swiss denominated Securities, the Recall Period End Date is one Business Day after Start Date;

 Recall Period

Figure 3. Recall flow diagram

Closing a loan

A loan will close in the following circumstances:

- The return of Securities from the Borrower subsequent to its request or subsequent to the Lender's request (Recall);
- A request from the Lender to receive Cash reimbursement equal to the market value of the Securities on loan as part of the Recall process;
- A mandatory or a voluntary corporate action with a reimbursement in Cash or equivalent securities; or
- A redemption of the loaned Securities (no settlement instruction are generated due to the security reaching maturity).

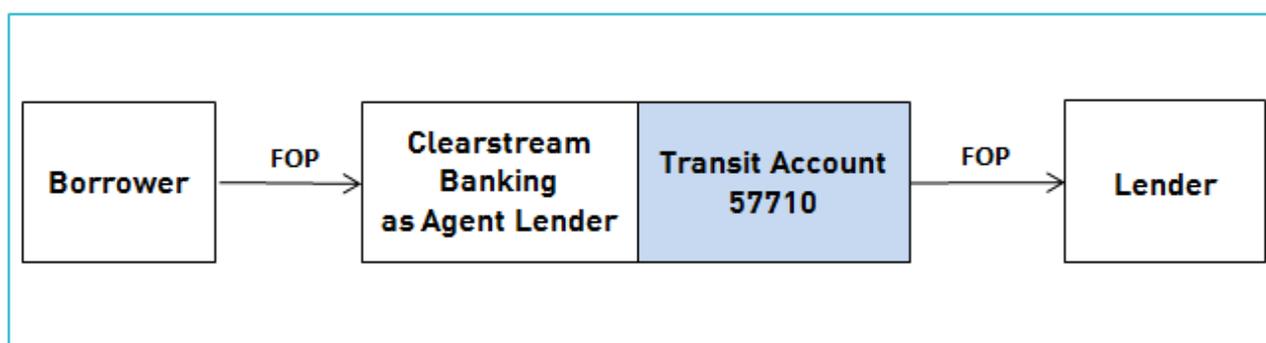


Figure 4. Loan closing

The Lender involved in the loan will automatically receive, through an FOP instruction, the corresponding Securities from the transit account 57710 (see [Figure 4](#)).

For an explanation of loan reporting, please see the Clearstream Banking Reporting Guide.

Custody events

Income events

Clearstream Banking will manufacture all coupon/dividend payments, based on the Lender's coupon/dividend requirements, and redemption proceeds, either full or partial, on payment date. For a redemption, no closing instruction is generated for the Lender.

For Borrowers, Clearstream Banking will initially debit any cash interest income/final redemption payments due on the loaned Securities from the Borrower account. All payments will be made on payment date.

Corporate actions

As a general rule, in the event of a corporate action, the respective Securities will no longer be eligible for lending or borrowing.

Voluntary/mandatory with choice events

Current holdings

Clearstream Banking will notify Lenders and Borrowers, via the customer's preferred communication method, of any upcoming corporate events on lent and held-free positions. Details of these notifications can be found in the Reporting Guide for Agency and Agency CCP Lending.

In the case of corporate actions that are voluntary or mandatory with choice, Lenders should notify Clearstream Banking by the necessary deadline in order to participate in the corporate action. The notice should include the Lender's intentions for the lent position. Participation in the corporate action related to the lent position will be actioned by Clearstream Banking, meaning that the security proceeds resulting from the corporate action will be reflected as an on-loan position in the books of Clearstream Banking, as if the Lender had participated, and will be redelivered at the end of the loan.

Lenders that want to recall their lent positions before the corporate action are requested to provide notice to Clearstream Banking in sufficient time to allow for the return of the Securities.

Clearstream Banking may, at its discretion, recall the Securities.

For example, **Exchange full or partial:**

If a security is subject to an exchange offer and the Lender sends notice to participate before the Clearstream Banking deadline, then, on exchange date, the loan in the old security code will cease and a new loan in the new security code will be opened.

For a partial exchange, the loan in the old security will cease; a new loan will be opened in the new security (reflecting the amount being exchanged) and another new loan will be opened in the old security (reflecting the amount not being exchanged).

Any Cash distribution that is due is then debited from the Borrower and paid to the Lender.

Voting rights and consent fees

Lenders that want to exercise their voting rights should recall their Securities within the stipulated deadlines. However, the Lender can only participate in the vote up to the amount that they hold on their account on record date.

Compensation for consent fees (or other incentive or similar fees paid as an incentive to participate in a corporate action) will be provided to the Lenders. In order to benefit from such fee, the Lender must have recalled the Securities within the stipulated deadlines.

If the Borrower fails to return the Securities in time to enable participation, then the necessary Cash payment will be debited from the Borrower and paid to the Lender.

The Lender will not be able to receive such compensation fee if the Recall deadline has not yet been reached or if the record date has been passed.

Mandatory events

If a corporate action for which no instruction is required occurs on loaned securities, Clearstream Banking will perform the necessary action.

For example, **Call option:**

If a security is subject to a call option, the loan will cease and the Cash distribution that is due is debited from the Borrower and paid to the Lender.

Billing

Commission fees

Fees associated to loans are billed on a per calendar month basis.

Customers are credited on a monthly basis in Euros on the 15th day of the month following the billed month. If the 15th falls on a non-Business Day, Clearstream Banking bills on the next Business Day.

Details of lending fees are provided in the monthly Clearstream Banking Fee statement.

Calculation of commission fees

The value of the loan is determined at the opening of the loan and, unless otherwise specified, remains constant throughout its duration. The rate also stays the same unless the loan is re-rated by Clearstream Banking.

All calculations use the gross rate. The fee is split 70:30 between the Lender and Clearstream Banking.

The calculations are as follows:

Lenders:
$$\frac{\text{Quantity lent} * \text{Loan value per unit in EUR} * \text{Lending rate (gross)} * \text{Number of days loan open}}{360}$$

Example: A Lender lends out 2,000,000 nominal of a zero coupon EUR-denominated bond for 25 days with a loan value per unit of 101 at a gross rate of 25 bps.

Gross fee:

$$\frac{2,000,000 * 1.01 * 0.0025 * 25}{360}$$

= EUR 350.69

The Lender will receive 70% of the gross fee, that is EUR 245.49.

Reporting

All reporting for the Agency Lending Programme can be found on our website in a separate document, The Reporting Guide for Agency and Agency CCP Lending. Here Clearstream describes and details all the different types of reports available to Customers in order to manage the day to day administration of the Agency loans.

Glossary

Agency Borrower

A Clearstream Banking Customer or an external party who borrows securities from the Clearstream Agency Lending Programme.

Agency Lender

A Clearstream Banking Customer who has made loans or has agreed to make available Securities for Loans in the Clearstream Agency Lending Programme.

Agency Lending Programme

A lending Programme aimed at the wholesale market where borrows are for strategic purposes and where CBL is acting as lending and collateral agent.

Agency Lending Disclosure

An ISLA recommendation providing industry standards for agent Lenders and broker-dealers.

ASL - Automated Securities Lending Programme

A programme that facilitates the borrowing of Securities to prevent settlement failures. Such lending is usually short-term.

ASLplus Programme

A lending Programme aimed at the wholesale market where borrows are for strategic purposes and where CBL is acting as Principal and CI as collateral agent.

CI

Clearstream International.

FOP

Free of payment (for instructions to transfer Securities without an associated transfer of funds).

Internal transaction

An instruction for a transaction by book-entry between Clearstream Banking accounts.

Recall

The process by which Securities are requested back from the Borrower to be returned to the Lender.

Settlement

The process whereby Securities (and corresponding funds, if any) are delivered (and credited) simultaneously to the accounts involved.

Umbrella Agency Agreement

A Governing Document defining the rules of the Clearstream Agency Lending Programme.

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