Clearstream
Global Liquidity Hub – KAGplus

Product information

Enhanced revenues for ETFs, UCITS and custodian banks governed by German law

KAGplus enhances the performance of ETFs, UCITS and custodian banks by enabling securities lending to chosen counterparties in full compliance with investor protection regulations.

Key benefits

– **Compliance support**
  Customers fall under the derogation granted to Clearstream under Section 202 of the German Capital Investment Code (KAGB) and section 27, 14 of the Derivatives Regulation (DerivateV) by complying with Clearstream’s rules.

– **Collateral pooling and sub-fund reporting**
  Borrowers can pool collateral for all their borrowing activities into one exposure, while Clearstream manages the assignment of collateral to sub-fund level.

– **Sophisticated management of collateral**
  Defining the eligibility of collateral and haircuts applied, the mark-to-market of loans as well as collateral and default handling, including defence lines, is performed by Clearstream in a streamlined manner.

– **Yield enhancement**
  The service helps to increase the fund’s yield, especially in a generally low yield environment.

– **Reduced costs**
  Automation and outsourcing of operational tasks brings back-office relief.

ETFs, UCITS and custodian banks constantly need to strike a balance between maximising returns and protecting investors. While securities lending is a useful tool for them to increase their performance, the lending activities of investment funds governed by German law are subject to certain regulatory requirements.

The German Capital Investment Code (KAGB) imposes counterparty concentration limits, meaning that the amount of securities available for lending to a single counterparty is restricted. In addition, the Derivatives Regulation (DerivateV) imposes strict collateralisation requirements.

**Full regulatory compliance**

The KAGplus lending programme has a special legal framework which results in more standardised and streamlined rules for subscribed investment companies and custodian banks. This is possible thanks to an exemption Clearstream’s Central Securities Depository (CSD) in Germany (Clearstream Banking AG, Frankfurt) was granted under section 202 of the Capital Investment Code and section 27, 14 of the Derivatives Regulation since Clearstream enforces these standardised rules.

This legal framework enables ETFs, UCITS and custodian banks to choose between two collateral schedules and gives them the possibility of selecting the type and number of counterparties as well as the most suitable securities lending operating model in full compliance with regulations.
Benefits for lenders and borrowers

The KAGplus service enables both lenders and borrowers to fully comply with regulatory requirements while at the same time maximising lending activities. Lenders can benefit from Clearstream’s KAGplus service for free and have the possibility of determining their counterparties when subscribing. Borrowers, on the other hand, benefit from more efficient securities lending. Instead of having to earmark separate collateral for each fund, borrowers can pool their collateral at Clearstream in one single collateral account from where it is automatically allocated to sub-fund level. As this results in fewer transactions, borrowers benefit from lower operational costs.

Optional matching service

Customers can choose between two securities lending operating models, either with or without matching. In the latter manual model, trades are pre-agreed between the counterparties and Clearstream carries out the transaction after it has been notified by both the lender and the borrower. The matching service brings the lenders and the borrowers together like an order book: the lender inserts his portfolio on the platform and Clearstream automatically matches it with an appropriate lending request by a borrower.

Reduced operational burden

The service brings back-office relief as all operations will be handled by Clearstream as a neutral collateral agent, including matching, trade reconciliation, margining, collateralisation, daily mark-to-market and reporting performed by Clearstream. Customers also benefit from automatic processing of mandatory corporate actions and income payments as well as standardised haircuts. In this way, KAGplus helps ETFs, UCITS and their custodian banks to ensure maximum investor protection while reaping additional returns from facilitated access to securities lending.

Contact information

For further information on our Global Liquidity Hub services, please contact our dedicated GSF team.

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