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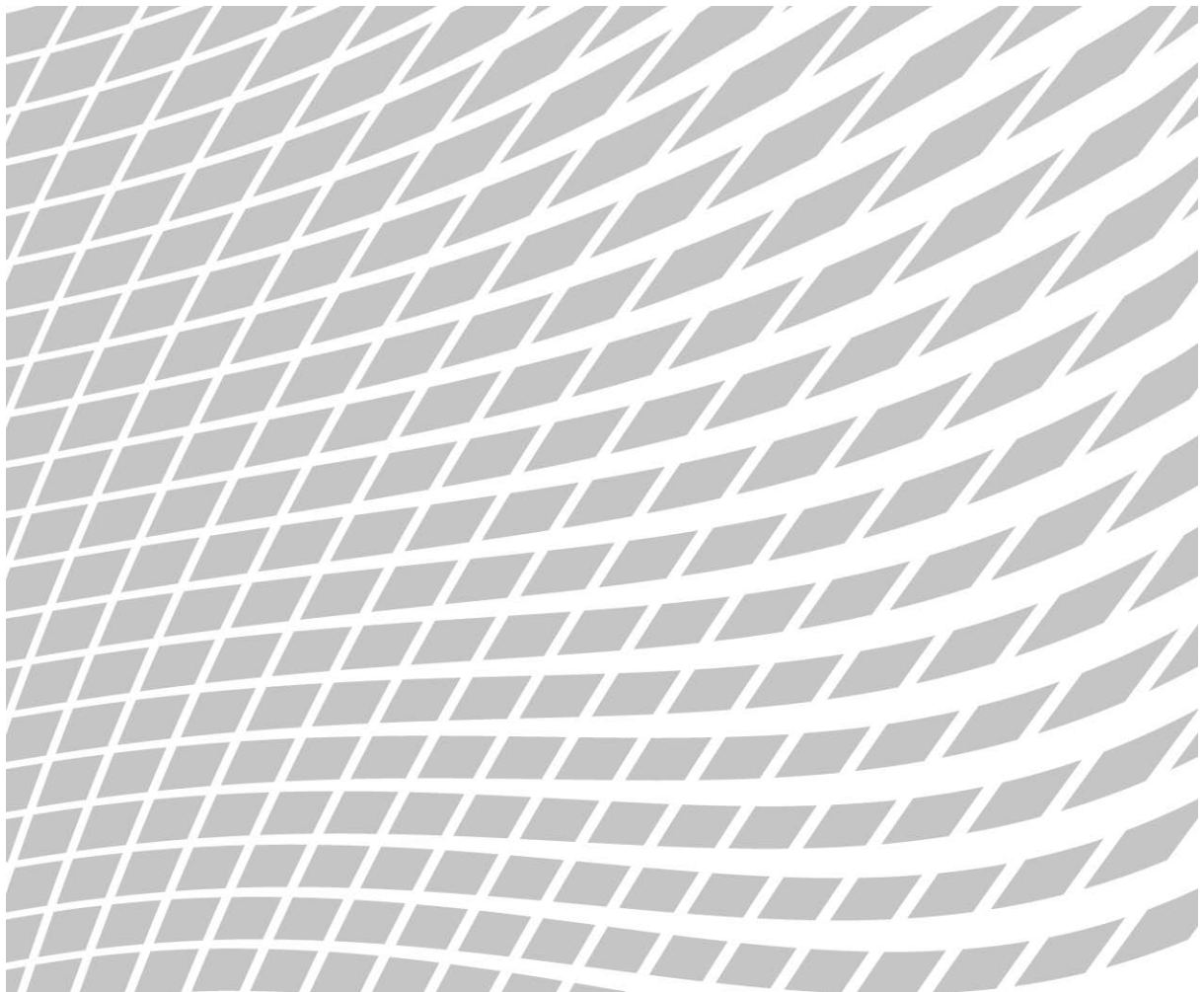
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## **Securities lending and borrowing**

from the standpoint of supervisory liquidity regulations and investor protection

**Explanatory report on a FINMA draft circular**  
***(full report in German and French)***

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## Key points

*In recent years securities lending and borrowing or SLB has become an important instrument in the securities market. It meets legitimate economic needs of the banks and the market. The volume of securities borrowed is significant, accounting for approximately one fifth of short-term liabilities in the banking system. SLB can be conducted with or without cover. The share of securities borrowed without cover, mainly from private and corporate clients, is significant. In terms of volume, though, it is covered SLB which dominates; this is mainly transacted between banks or with institutional clients.*

*Amongst other ways, SLB is an important source for participants in the money market to obtain securities, while the money market is crucial for monetary policy. Repos have proven to be a reliable way for the Swiss National Bank to manage interest rates and liquidity, even in exceptional circumstances.*

*Various banks offer SLB programmes to their clients. This involves clients agreeing in advance to allow the bank to borrow securities from their portfolios in line with needs of the bank in the market. In return, customers receive a lending fee.*

*Civil law and FINMA both insist that banks provide clients with an appropriate explanation of the risks of SLB in advance. There is a risk that clients may lose title to their securities and – in exchange – are left with a claim for restitution against the bank. In a crisis, this can result in a loss. Principally, FINMA has the necessary statutory instruments to take the action required in a crisis, even as regards SLB. However, FINMA needs a clearer view about the scale and trends of SLB transactions in general, if it is to identify potentially critical situations at an early stage. At the same time, it is an obligation of each bank, as an element of its risk management procedures, to prevent possible conflicts of interest in periods of tight liquidity.*

*The report proposes that FINMA issue a circular on SLB. On the one hand, this should demonstrate how SLB is to be treated under the current liquidity regulations. In addition, detailed requirements on disclosure, the content of master agreements, processing and settlement will protect creditors and investors engaged in SLB. Owing to the risks associated, uncovered SLB with non-qualified investors will be restricted.*