




ICSF



Principles
for Sustainable
Securities
Lending



The ISLA Council for Sustainable Finance (ICSF) aims to introduce wide-ranging solutions for sustainable securities lending through the introduction of its Principles for Sustainable Securities Lending (PSSL), developed over the past two years by a high-level working group representing beneficial owners, in association with ISLA.

The PSSL remit is to have a strong and clear impact on the social, governance and long-term thinking elements of sustainable securities lending. They will reinforce the overarching governance framework through, but not limited to, the ICSF Annual Report on the State of Sustainable Securities Lending. This will make recommendations on the entire securities lending value chain in line with best sustainable finance practices. It will also enhance transparency around the impact of securities lending on the environment, and we commit to developing and implementing new and best practice environmental solutions through our innovation.

The PSSL initiative, alongside other ESG initiatives such as the UN Supported Principles for Responsible Investing (UNPRI), Green/Social/Sustainability Bond Principles, Equator Principles, and the UN Principles for Responsible Banking, will enhance our analytic investment opportunities for sustainable finance. It will offer a tangible potential to advocate wider law, policy and regulation at a national, regional and global level. It will also be a pathway for other organisations to learn about the industry and exchange best practices.

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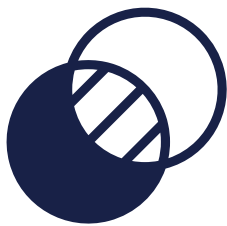




1 Alignment

We will, from the start, align with global and regional mandatory and voluntary mechanisms that govern securities lending and with the principal solutions for sustainable development, climate finance and generally-agreed responsible investment norms.

In doing so, we will strive to provide cutting-edge solutions arising from innovative developments within sustainable securities lending, a distinct finance dynamic at a crossroads where trading, liquidity and risk management meet and thus, in turn, strengthen those global and regional agendas.



2 Transparency

We will be supplying accurate information on our sustainable securities lending activities and, in turn, increase transparency on the global sustainable finance market.

We will advocate sustainability in policy and regulatory consultations on securities lending.



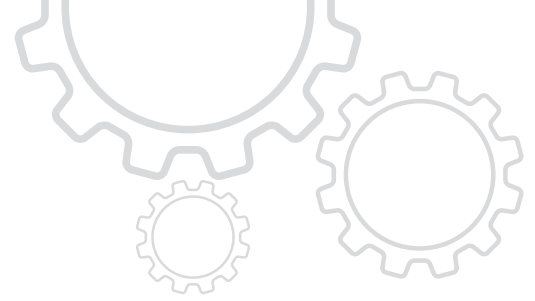
3 Tax

We require that securities lending programmes must align with the beneficial owner's tax policy. This tax policy should be available to clients of the beneficial owner and to counterparties of the securities lending programme.

Beneficial owners must maintain a clear withholding tax matrix to ensure that they receive an amount equal or greater to the one that would be received, assuming that the securities had not been on loan.

Securities Lending programmes must comply with local tax rules and the beneficial owners will continue to shape best practice in this regard.





4 Voting

Voting rights cannot be exercised by the beneficial owner if the underlying security has been lent to someone else. Borrowing securities for the purpose of using them for their voting rights is not acceptable market practice.

All parties should have an ability to recall and/or restrict securities for a certain period from the lending programme.

All participants must vote in an informed manner and do so in accordance with an established voting policy that covers securities lending.



5 Collateral

We stress that the primary purpose of the collateral in securities lending is to mitigate counterparty risk.

Securities Lending collateral parameters, such as exclusion lists, should be considered in ESG strategies.

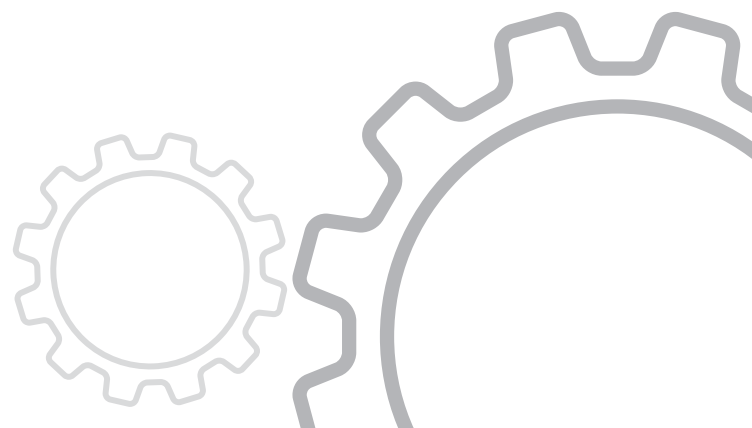
The portfolio will not benefit from performance, distributions (such as dividends, coupons) and voting rights must not be exercised on any asset held as collateral.

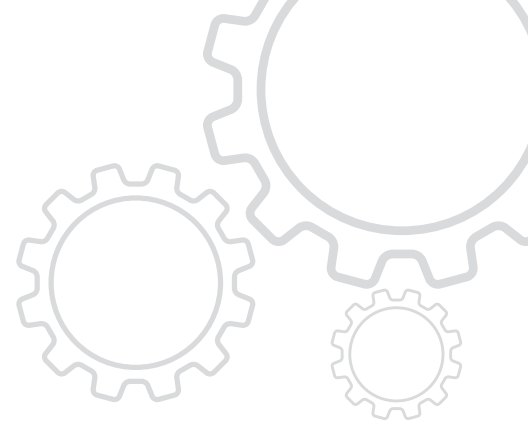


6 Short Selling

We stress that covered short selling is beneficial to financial markets. It is part of the essential market mechanism that facilitates price discovery and liquidity. It also reduces the asymmetry in a market participant's ability to express an opinion on the value of assets.

Beneficial owners must not knowingly facilitate any form of manipulative market activity or abusive short selling.





7 Stakeholder Involvement

We will reinforce the collective understanding of sustainable securities lending.

We will engage constructively with all stakeholders interested in advancing and implementing these principles and through this initiative, make an impact on the wider sustainable finance agenda.



8 Innovation

As market participants collaborate to enhance market efficiency through new technologies or routes to market, the importance of Environmental, Social and Governance factors as well as Sustainable Development Goals criteria must be taken into account and be fully documented.

As innovation continues to drive the securities lending market, all participants must remain vigilant of these principles and strive to adopt them in all future securities lending endeavours.

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