

Consultation on the renewed sustainable finance strategy

ISLA would like to use this opportunity to promote the associations work towards building a sustainable future within the Securities Lending Industry by introducing the recently formed ISLA Council for Sustainable Finance (ICSF), as well as providing a brief overview of the work we do:

**Who are we?**

The International Securities Lending Association (ISLA) is a leading industry association, representing the common interests of securities lending and financing market participants across Europe, Middle East and Africa. Its geographically diverse membership of over 170 firms includes institutional investors, asset managers, custodial banks, prime brokers and service providers.

**What do we do?**

Working closely with the global industry as well as regulators and policy makers, ISLA advocates the importance of securities lending to the broader financial services industry. ISLA supports the development of a safe and efficient framework for the industry, by playing a pivotal role in promoting market best practices and processes, amongst other things. ISLA sponsors the [Global Market Securities Lending Agreement (GMSLA)](http://www.isla.co.uk/legal-services/) and the annual enforceability review in over 65 jurisdictions globally.

**ISLA’s Objectives:**

* To provide guidance to the securities lending industry and to be its leading voice within the EMEA regions.
* To create a professional and interactive environment for its membership and promote the industry’s global development.
* To ensure sound industry practices, improve industry transparency and education, highlight industry developments and to liaise with the wider ﬁnancial community, institutional investors, the media, other trade associations, regulators, governments, and policymakers.
* To work with regulators and policymakers to provide a safe and efficient framework for securities lending and enhance the public profile of the industry.
* To sponsor the Global Master Securities Lending Agreement (GMSLA) as the market standard legal agreement, both title transfer and pledge versions as well as the ISLA netting opinions.

**Sustainable Finance & ISLA:**

In recognition of the growing importance of the ESG agenda and to allow our members to develop appropriate strategies that support both their ESG objectives as well as maintain their participation in securities lending, the ISLA Council for Sustainable Finance was created in February 2020. The 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.

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. 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 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 counterparts 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.

**ESG in Securities Lending:**

In recent times, it is becoming ever more important for investors and asset owners to assess their securities lending procedures and integrate Environmental, Social and Governance factors into their everyday practices. It is often suggested that the activity of securities lending does not support long term investment and hence not compatible with an ESG agenda however, ISLA would like to highlight the wealth of evidence that would support integration of ESG criteria and this industry. For example, it is proven that short selling (borrowers) facilitated by lenders (securities lending) is vital for market efficiency and liquidity. The main concern for investors is the lack of transparency where owners feel they do not have exposure to the true owners of their stock and the reasoning behind borrowing however, the introduction of the Shareholders Rights II directive that goes live in September 2020, will begin to address this, by putting a disclosure obligation on intermediaries to facilitate a company’s right to identify its shareholders and actioning their rights. This will help to provide greater transparency for proxy voting, minimise risk and advance communication between the investor and issuer and thus promoting long term participation.

Investors have long been integrating ESG criteria into their lending strategies, and it is common practice to have procedures in place that allow any securities on loan to be recalled over key dates and setting nominal restrictions on how much can be lent, in a given period of time.

ISLA supports the development of a broadly based market led capital markets eco system. Securities lending plays an integral role in providing efficient price discovery, deep and liquid secondary markets as well as providing long term investors with an important incremental revenue stream.

**For more information please visit our website -** <https://www.isla.co.uk/regulation-and-policy/environmental-social-governance-esg/>