

## **Chapter 6 – Appendix II**

### **SECURITIES LENDING AND REPURCHASE TRANSACTIONS**

- (1) For the purpose of this Appendix, any reference to ‘high quality’ means the top three long-term credit rating of the issuer (including gradation and subcategories).

#### ***Collateral: General***

- (2) The collateral provided to the fund for securities lending and repurchase transactions must comply with the following:
- (a) It can only consist of cash, debt securities, or money market instruments, that are subject to the investment restrictions and limits, on a portfolio basis, as prescribed under Schedule B of these Guidelines;
  - (b) It is marked-to-market daily by using independent pricing source;
  - (c) It must be sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
  - (d) It must be of high quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it undermines the effectiveness of the collateral;
  - (e) Its value must not have any significant correlation with the creditworthiness of the counterparty in such a way that would undermine the effectiveness of the collateral;
  - (f) It is not issued by the counterparty or any of its related corporation;

- (g) It must be–
  - (i) held by the trustee or an agent; and
  - (ii) legally secured from the consequences of the failure of the trustee, counterparty or agent;
- (h) It must be subject to prudent haircut policy;
- (i) It must be readily accessible or enforceable by the trustee of the fund without further recourse to the counterparty of the securities lending and repurchase transactions;
- (j) It is free from all prior encumbrances; and
- (k) Bonds, sukuk and other forms of securitised debt, and money market instruments, with embedded derivatives are not eligible as collateral.

***Collateral: Securities lending through a standardised lending system***

- (3) For securities lending through a standardised lending system, the collateral may, in addition to instruments specified in paragraph (2)(a), consist of equity securities as approved or prescribed by the clearing house, provided that the equity securities–
  - (a) comply with the requirements specified in paragraphs (2)(b), (c), (e), (f), (g), (h), (i) and (j); and
  - (b) equity securities with embedded derivatives are not eligible as collateral.

***Re-investment of collateral***

- (4) Collateral obtained in the form of cash by the fund may only be reinvested in short-term deposits and high quality money market

instruments, and subject to corresponding investment restrictions and limits applicable to such investments, on a portfolio basis, as prescribed under Schedule B of these Guidelines.

- (5) Non-cash collateral received may not be sold, reinvested or pledged.

***Management of operational and legal risks***

- (6) The management company or the fund manager must have appropriate systems, operational capabilities and legal expertise for proper collateral management.