



# Zoom

## Securities Lending and Borrowing

The Euroclear Bank Guarantee explained

When you lend securities in Euroclear Bank's Lending and Borrowing programme, you benefit from double name risk protection.

Should the borrower be unable to reimburse your securities, Euroclear Bank will exercise its Guarantee and step in to replace them.

### Euroclear Bank as commissionaire ducroire

In its relationship with lenders, Euroclear Bank acts as commissionaire ducroire under the Belgian law<sup>1</sup>. It guarantees to substitute itself in place of the borrower should the latter fail to honour its obligations.

It is in its capacity as commissionaire ducroire that Euroclear Bank issues the guarantee as documented in section 14 of the Supplementary Terms and Conditions governing the Lending and Borrowing of Securities through Euroclear (STC) - "Guarantee to Lenders; Remedies against Borrowers".

<sup>1</sup> Royal Decree No. 62 of 10 November 1967

### What is the Euroclear Bank Guarantee?

All lenders in the programme are protected by the Euroclear Bank Guarantee. The Guarantee applies as soon as your securities are lent to a borrower in the programme. It covers:

- Return of lent securities or their cash equivalent
- Entitlements from issuers
- Payment of lending fees.

Euroclear Bank will exercise its guarantee to lenders in one of the following situations:

- The borrower facing a recall does not return the lent securities by the recall repayment date
- The borrower becomes insolvent

In such situations, Euroclear Bank will step in and seek to return the lent securities to you by **purchasing replacement securities**. If the securities cannot be obtained in the market, you also have the right to request:

- **cash compensation:** the amount is determined by our Treasury department based on the market value of lent securities
- **reimbursement with equivalent securities** having similar characteristics to the lent securities

### How does Euroclear safeguard its Guarantee?

**Borrowers carefully selected:** Borrowers in the programme are carefully selected and they are subject to credit arrangements with Euroclear Bank. These are granted based on an in-depth analysis and review of the borrower's activity in Euroclear.

**Collateral pledge:** The credit facility includes a Collateral Agreement with Euroclear Bank, where borrowers pledge their assets to the benefit of Euroclear Bank. These assets can be liquidated if the borrower defaults.

**Collateralised loan:** There must be enough collateral in the borrower's pledged Euroclear Securities Clearance Accounts and Cash Accounts to cover the market value of borrowed securities plus a margin depending on the loan instrument type.

Collateral is made available to Euroclear Bank on a simultaneous and irrevocable basis when securities are transferred to the borrower's account

**Borrower activity monitored and capped:** Euroclear closely monitors the activity of borrowers and limits the maximum amount they can borrow by applying a borrowing cap.

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## Contact us

For more information please contact your Relationship Manager

## Further information

Securities lending – Get the most from your portfolio

Unlock the potential – flexible and secure securities lending solutions for non-cash collateral

You can find these publications on: [www.euroclearbank.com](http://www.euroclearbank.com) > **Services** > **Securities Lending and Borrowing**

**Borrowing limits:** Euroclear also imposes a borrowing limit per ISIN of 10% of the issue amount for a single borrower and 20% of the issue amount for all borrowers together.

## What happens if a borrower becomes insolvent?

As a lender in our programme you have no contractual relationship with borrowers who remain anonymous at all times.

Euroclear Bank will therefore act on your behalf and take appropriate action against borrowers for their failure to perform their obligations under the Securities Lending and Borrowing Programme, as stipulated under 14(c) of the Standard Term and Conditions. As of insolvency date, Euroclear takes the following actions:

- We stop the creation of new borrowed positions
- We start the process of purchasing replacement securities to return to the lender in accordance with the Guarantee.
- We liquidate the collateral in the borrower's pledged account based on the Collateral Agreement and the Financial Collateral Directive

## What happens if Euroclear becomes insolvent?

In the unlikely event that Euroclear Bank cannot deliver under the Guarantee, the obligation on the borrower to return the securities still remains.

As soon as the securities are returned to the borrower's account they pass directly to the lender, as covered by the Belgian Royal Decree No. 62 of 10 November 1967.

The provisions of the decree state that each Participant in the Euroclear System benefits from a right of re-vindication of securities on deposit with Euroclear Bank, pro rata to its share in the pool of securities in the case of Euroclear Bank bankruptcy.

This pool of assets extends to all securities held or to be received by Euroclear Bank on behalf of Euroclear Participants, including securities on loan under the Securities Lending and Borrowing Programme.



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