



Creating a Global ESG Market Standard
for Owners, Lenders, Borrowers and
Impact Creators.

Preparing securities lending for a sustainable world.

Recommendations for a stronger, more engaging and more
transparent value chain.

Consultation paper

Comments

We welcome comments on this paper and may invite you to participate in the workstream. Please provide comments on this paper directly to Global PSSSL (radek.stech@gpssl.org). Global PSSSL will also actively encourage feedback from workstream participants and the College of Advisors. Workstream participants will also collect feedback in their respective jurisdictions.

Consultation timeline

The consultation period will run until the end of August 2021. We will continue internal work as part of the workstream and broader roundtables organised by Global PSSSL and other market participants.

Authors: *Roelof van der Struik (PGGM), Radek Stech (Global PSSSL, University of Exeter Law School), following the 'Global Engagement, Governance and Stewardship' [workstream meeting](#). Ideas consulted initially with Global PSSSL Short – Long Investments and ESG Workstream meeting on 17/18th June 2021 and [The College of Advisors Executive Committee](#) on 21st June 2021.*

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Key background facts

Global Principles for Sustainable Securities Lending represents a holistic and principle-based approach to sustainability in the field of securities lending and borrowing. It unifies global markets at a high level of policy coordination, and increases trust, confidence and transparency alongside advancing the integration of ESG.

Work on the initiative that would later evolve into Global PSSSL began in 2018 during a series of roundtables attended by prominent beneficial owners and hosted by an independent chair from the University of Exeter Law School. Thereafter, many agent lenders committed to building this agenda forward as part of a semi-autonomous organisation with a global mission and vision.ⁱ The only viable way to move the agenda forward with the best governance and transparency practices on board is through an impartial and independent Global PSSSL and this was agreed upon with many stakeholders.ⁱⁱ

Despite the clearly agreed pathways towards more sustainable and transparent securities lending practices set out by Global PSSSL and its preceding work, the community is now at risk of further fragmentation of this agenda. Such fragmentation may be counterproductive, self-serving and lead to decreased transparency and weaker global sustainable finance market.

Global PSSSL will continue work that strengthens the securities lending value chain so that the stakeholders can add value to the joint sustainable finance efforts. Inevitably, this work helps broaden the pool of stakeholders who gain interest in securities lending and, in turn, increases transparency in the value chain. For this reason, we also include regulators, central banks and international organisations in this consultation.

“Sustainable securities lending can add value to the owners of capital and the broader sustainable finance agenda. Fragmented and self-serving securities lending may only add value to certain best informed and sophisticated stakeholders, and, in turn, impede progress towards a wider community supporting financial markets. Global PSSSL works towards the former whilst engaging the latter.”

Roelof van der Struik and Radek Stech



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Objectives

To create recommendations that will increase transparency in the securities lending value chain:

Forward-Looking: will set out key recommendations for the sustainable securities lending value chain that can meet the developing sustainable finance agenda;

Unifying and inclusive: recommendations that will help various stakeholders appreciate their roles in the sustainable securities lending value chain and, in turn, decrease misunderstanding of those respective roles. Global PSSSL plays an important role in gathering independent views and opinions from the broader stakeholder base, including regulators, ESG experts, and technical experts;

Transparent: it is an imperative that the whole value chain works towards increasing transparency in relation to the roles of securities lending in the ESG agenda;

Dynamic: provide means for constant review and evaluation in the spirit of voluntary collaboration with key stakeholders, including regulators and international organisations;

Aligned with Global PSSSL policy themes:





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Structure of the Recommendations

The minimum forward-looking standard should be clear and concise. The following structure is offered as an example:

1. Objectives and key background information.
2. Major challenges and benefits of a strengthened value chain.
3. Recommendations for stronger, engaging and transparent value chain.

Q1. Do you agree with the suggested overall design and structure?

Objectives and key background information

We will build upon the above objectives and key background facts. The goal should be to keep all the good that securities lending does for the market and where possible enhance this whilst being transparent about areas requiring further attention.

Q2. Would you have any comments on this section of the standard?

Challenges and benefits

Major challenges for strengthening the value chain

- There is limited awareness of ESG in general and securities lending more specifically. There is also stigma attached to some areas of securities lending/borrowing (especially short selling) and little awareness of the benefits, from the holistic perspective, that encourage good governance.
- Inconsistent regulation and fragmentation can prevent some stakeholders (e.g. pension funds' savers, hedge funds) from exploiting opportunities to their fullest extent in both developed and developing countries.
- Securities lending seems immature compared with other sectors of finance in the context of sustainable finance. Global PSSSL has observed many instances of self-serving private interests' strategies that may lead to decreased transparency on the markets.
- Some stakeholders prefer to work through special interest groups towards sustainable securities lending. Such strategies are frowned upon in other sectors of finance that recognise sustainability must be inclusive.

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- Regulatory and market fragmentation exists in this and other markets. Nevertheless, some securities lending experts use this as an argument against interconnectedness.

Benefits

- A more open, transparent but also efficient and competitive sustainable securities lending value chain.
- Greater clarity on the key roles, responsibilities and issues in the context of sustainable finance.
- Increased trust and confidence in the markets and securities lending as an acceptable, sustainable activity.
- Better liquidity in the markets.
- A more level playing field for all participants.
- Evidence/fact-based oversight from within and from outside.

Q3. Would you have any comments on this section of the standard?

Recommendations for stronger, engaging and transparent value chain.

The list of recommendations is below – please refer to brief descriptions below this list.

1. Map the key stakeholders for the sustainable securities lending value chain and keep it updated periodically;
2. Direct market participants play distinct but complementary roles for sustainable securities lending;
3. All buy-side, including all types of beneficial owners, can add value to the ESG agenda for securities lending;
4. Supportive market participants add value through collaboration, support, outsourcing and independent advice;
5. Regulators/central banks and international organisations to monitor Global PSSSL progress;
6. Private interest groups continue working with members to benefit their specific ESG agendas and collaborate with Global PSSSL to support the public interest ESG agenda;
7. Global PSSSL should be the guardian of the public interest for sustainable securities lending.

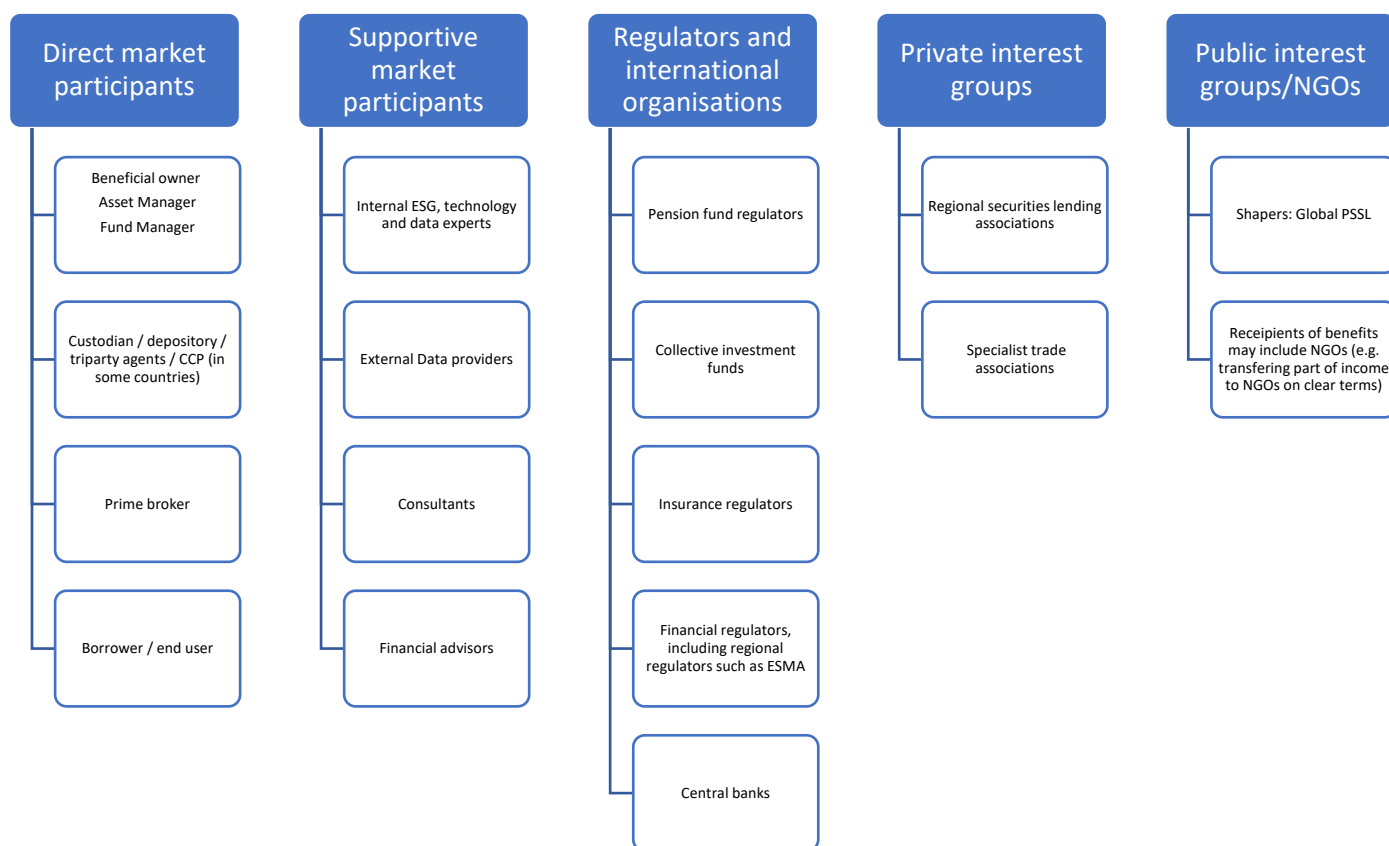
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Recommendation 1: Map the key stakeholders for the sustainable securities lending value chain and keep it updated periodically.

See the below chart:



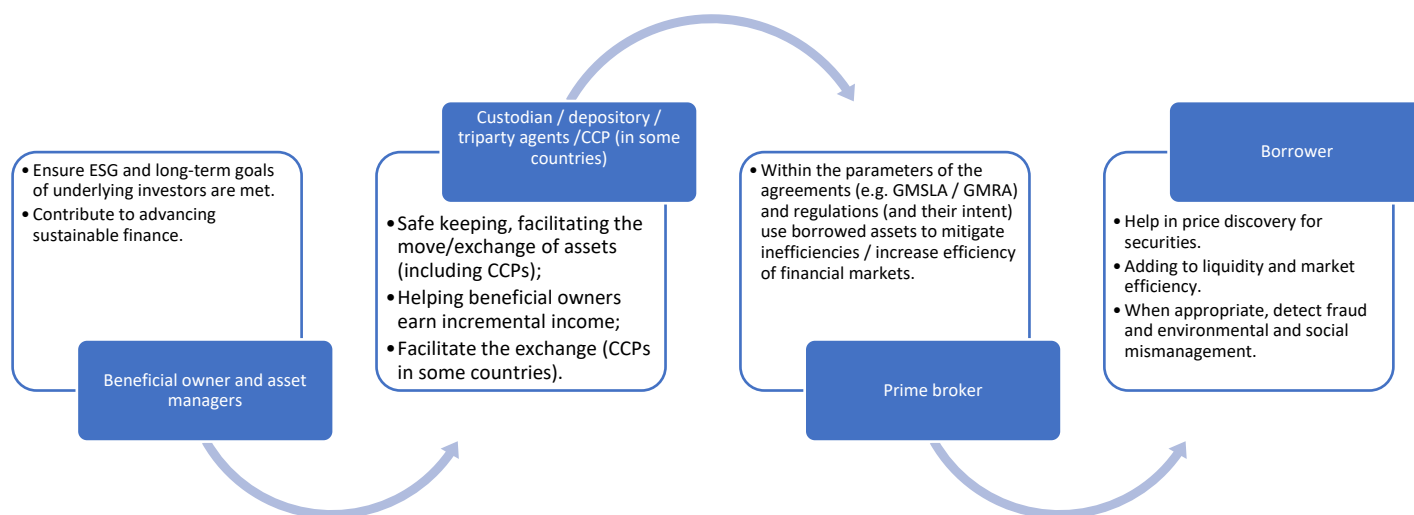
Q4. Would you have any comments on this section of the standard?

Recommendation 2: Direct market participants play distinct but complementary roles for sustainable securities lending.

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Q5. Do you agree with the above high level roles and responsibilities of direct participants?

Recommendation 3: All buy-side, including all types of beneficial owners, can add value to the ESG agenda for securities lending.

The governance responsibilities of beneficial owners increase with size and level of knowledge/sophistication that they may be expected to have.

Beneficial owners are often described as a 'buy-side' of the securities lending value chain which means that they buy/own securities that are lent to ultimate end users, often described as 'borrowers'. Yet, many of the borrowers use both long and short strategies and are often described as 'buy side' or even 'asset managers' in the financial markets generally and in Global PSSSL discussions. Whereas they do not own the securities in the lending context, they play a significant role for sustainable finance via various investment strategies. Their roles move beyond price discovery / market efficiency and include detection of fraud and, potential to identify social and environmental mismanagement.

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Global PSSSL recommends that all buy-side, including all types of beneficial owners, proactively add value to the ESG agenda for securities lending. They should endeavour to provide feedback to Global PSSSL and private interest groups with a view to shaping sustainable/transparent securities lending and sustainable finance overall.

The governance responsibilities of beneficial owners increases with size and level of knowledge that they may be expected to have – levels could be:

- Private owner of an ETF
- Private owner of an equity
- Private wealth management portfolio
- Small pension board – many tasks delegated
- Medium size pension board
- Large pension board
- Sovereign wealth fund

Beneficial owner – light

At the lowest / lightest level the beneficial owner should be **actively** informed of

- If (underlying)-assets are being lent out
- If so receive a one pager with information on the program containing minimum
 - Kind of program – agency or principal
 - Risks and who bears them
 - Fees charged for service
 - Voting policy
 - Tax policy
 - General ESG information

Beneficial owner – enlightened

Sophisticated asset owners should first and foremost have an opinion on lending out or not lending out of assets and how this choice aligns with their fiduciary obligation

- If lending is allowed then they should have;

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- A voting policy
- A tax policy
- A RI / ESG policy
- A securities lending policy which could include
 - Lending philosophy – is it for incremental income/liquidity
 - Which routes to market are chosen
 - Who is responsible for:
 - What is lent out
 - How it is lent out
 - Fees charged for service through the chain
 - Collateral parameters
 - Risks and who bears them (also operational risks)
 - How are the program earnings benchmarked
 - What is reported to whom on loans and collateral
 - Regulatory obligations and how they are met

Between the beneficial owner light (e.g. the small private ETF investor) and the enlightened beneficial owner (e.g. the multibillion sovereign wealth fund) the level of expected sophistication increases which means the responsibility moves from the asset manager informing the owner proactively to the owner telling the manager what its policy on securities lending is. Maybe rating platforms like Morningstar could help the small investor with putting more emphasis on quality of the ESG / securities lending component of the ETF. The enlightened beneficial owners should challenge the asset managers on their ESG / securities lending agenda and where possible impose on them their policies.

Q6. What should be the ESG roles and responsibilities of the beneficial owners depending on the size and level of knowledge?

Recommendation 4: Supportive market participants add value through collaboration, support, outsourcing and independent advice.

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The roles and responsibilities of supportive market participants are depicted in a graph below:

Internal ESG, technology and data experts	External Data providers	Consultants	Financial advisors
<ul style="list-style-type: none">• Provide ESG/technology and data support to fund managers and securities lending experts;• Liaise with external stakeholders to strengthen the agenda (e.g. with Global PSSSL on public interest matters).	<ul style="list-style-type: none">• Collaborate with fund managers/securities lending experts on developing consistent ESG data;• Support internal data providers;• Liaise with external stakeholders (e.g. with Global PSSSL on public interest matters).	<ul style="list-style-type: none">• Outsourcing services to direct participants by applying Global PSSSL principles (e.g. transparency);• Miners of additional cutting edge knowledge.	<ul style="list-style-type: none">• Provide independent advice to underlying clients by drawing on Global PSSSL and best practice recommendations;• Reducing market fragmentation by promoting transparency.

Q7. Do you have any comments on the roles and responsibilities of supportive market participants?

Recommendation 5: Regulators/central banks and international organisations to monitor Global PSSSL progress.

The regulatory landscape for securities lending is very complex given that participating stakeholders come from distinct sectors of finance. Hence, securities lending is a complex finance dynamic that brings together stakeholders that are subject to distinct regulatory and legal requirements. For example, public pension funds will face a stronger regulatory oversight from the perspective of the fiduciary duties, whereas Globally Systemically Important Banks (some agent lenders and/or prime brokers) will face a stronger regulatory/central bank oversight in relation to market liquidity and Basel III requirements. Regulatory oversights may be even more complicated when securities lending is at early stages of developments, such as in the emerging markets, some of which have distinct operating environments for securities lending which differs from cross-border standards. International organisations play an important role in shaping sustainable finance agenda.

It is therefore recommended that regulators, central banks and international organisations take a monitoring role of Global PSSSL in relation to sustainable securities lending. Through this, the regulators will be able to assess the authenticity of progress of securities lending towards the sustainable finance agenda. Such collaboration will

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decrease the financial and resource burdens on regulators, central banks and international organisations, and help them recognise the overall developments.

Such collaboration will take shape of an annual roundtable with Global PSSSL and frequent catch-ups with the Global PSSSL CEO/Secretariat. From this collaboration working groups could be formed where for example the industry helps the regulators analyse the enormous amount of data they are receiving through for example SFTR for the benefit of the whole industry.

Recommendation 6: Private interest groups continue working with members to benefit their specific ESG agendas and collaborate with Global PSSSL to support the public interest ESG agenda.

There are several private interest groups that contribute to shaping securities lending, notably regional securities lending associations (e.g. CASLA, RMA, SASLA) and specialist associations such as ICMA (e.g. collateral) and AIMA (alternative investments). Some regional associations may prefer to work on their own regional agendas and form coalitions with other regional associations when appropriate. **Global PSSSL would like to encourage such participation whilst also accepting that may be overly focussed on the private interests of a limited number of market participants.**

We therefore recommend that private interest groups continue working with their members to benefit their specific ESG agendas and collaborate with Global PSSSL to support the public interest ESG agenda.

Q8. Do you have any comments on the roles and responsibilities of private interest groups?

Recommendation 7: Global PSSSL should be the guardian of the public interest for sustainable securities lending.

The sustainable finance agenda is entering an advanced stage and there are examples of some well-developed principle-based approaches (e.g. Green Bond Principles, Equator Principles) that can serve as inspiration. Such principle-based strategies advance the sustainable finance agenda, provide nudge to private parties, pre-empt regulation when appropriate and provide pathways to regulation when needed. Securities lending is yet to fully embrace this approach for increased transparency.

Global PSSSL aspires to be the guardian of the public interest for sustainable securities lending. This role implies working towards unifying and holistic solutions that benefit the broader community of stakeholders and the broader ESG agenda. Logically, this role leads to increased transparency, increased knowledge and understanding of mutual roles on this market.

Q7. Do you have any comments on the roles and responsibilities of Global PSSSL or other NGOs, as appropriate?

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Disclaimer:

Global PSSSL and this minimum standard are voluntary and do not create any legal rights or obligations. Global PSSSL will work on the recognition scheme in due course.

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ⁱ ISLA Council for Sustainable Finance.

ⁱⁱ <https://gpssl.org/wp-content/uploads/2020/10/Strategic-Themes-for-Global-PSSL-14-October-Final-1.pdf>