



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

## GLOBAL PRINCIPLES FOR SUSTAINABLE SECURITIES LENDING published on 7<sup>th</sup> September 2021

The Principles constitute a voluntary mechanism and signatories should follow the generalist principles in the first instance. Specialist principles should be implemented in line with organisational limits.



# 2021

## Global Principles for Sustainable Securities Lending



## **Principle 1: Sustainable finance alignment and development**

### Generalist Principle

Global PSSSL focuses on the public interest and aligns with global and regional sustainable finance agendas by cooperating with international organisations, regulators and other key stakeholders. Global PSSSL also strengthens these global and regional sustainable finance agendas through innovative solutions and debates.

We support this proactive approach to sustainable finance whilst following our own respective mandatory and voluntary mechanisms that govern securities lending.

## **Principle 2: Stakeholder involvement, inclusion and diversity**

### Generalist Principle

Global PSSSL is an inclusive market standard.

We will work towards the adoption and development of Global PSSSL with all stakeholders who demonstrate a commitment to promoting inclusion and diversity. In addition, we encourage all market participants to attract talent to their businesses from all walks of life through initiatives such as the Global PSSSL Mentorship Programme.

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## **Principle 3: Transparency**

### Generalist Principle

Global PSSSL will increase transparency and accountability in securities lending, and the broader area of sustainable finance.

We will provide accurate information about our sustainable securities lending approaches and activities.

Global PSSSL recognises the important role of key agreements in enhancing overall consistency and understanding in this area and will advocate a standardisation of key ESG components in adherence with Global PSSSL (e.g. Master Securities Lending Agreements (MSLAs)).

## **Principle 4: Interconnected sustainable finance collateral**

### Specialist Principle

Global PSSSL emphasises that the implementation of this principle across the whole value chain can lead to increasing the inherent value of financial instruments. This, in turn, can translate into effective collateral for other obligations and reduce financing costs whilst ensuring liquidity. Global PSSSL stresses that sustainable finance collateral can add value in both developed and emerging markets.

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We work toward the minimum requirements in relation to ESG compliant collateral baskets. In doing so, we recognise that the high quality of collateral contributes to maintaining trust in the markets.

Wherever possible, cash reinvestments should be made in securities that are consistent with the ESG compliant collateral basket at the issuer level.

We recognise the need to invest in the current collateral infrastructure to realise the full impact potential.

## **Principle 5: Supportive tax**

### *Specialist Principle*

Global PSSSL advocates a consistent approach which increases transparency and fair policies. It recognises that tax authorities play an important role in creating a logical and level playing field in relation to tax in securities lending. Global PSSSL emphasises the positive role of appropriate tax policies in unlocking sustainable securities lending in emerging markets in a socially responsive context.

Beneficial owners must understand a clear withholding tax matrix to ensure that they are not disadvantaged to the amount they receive, assuming that the securities had not been on loan.

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Securities lending programmes must comply with local tax rules and all market participants, including tax authorities, must continue shaping best practice in this regard, in collaboration with Global PSSSL.

## **Principle 6: Values-based short selling**

### *Specialist Principle*

As for securities lending, Global PSSSL supports covered short selling which contributes to achieving values beyond mere financial gain.

Global PSSSL recognises that short selling forms part of broader long-short strategies and enables market participants to express contrarian views that benefit long holders through a more thorough analysis of risk. Short selling provides liquidity to the market which reduces transaction costs and increases trading opportunities for all market participants.

Short selling provides an opportunity for market participants to discover poor governance and fraud. It is part of an essential market mechanism that facilitates price discovery and market efficiency.

The priority of Global PSSSL is to develop solutions that integrate environmental and social factors as short selling values.



We will increase transparency by working with data providers, and other stakeholders.

## **Principle 7: Voting and engagement**

### *Specialist Principle*

Global PSSL emphasises that market participants have the right to recall and/or restrict securities for a certain period from the securities lending programme. It recognises the freedom of market participants to formulate and implement their policies on voting in an informed manner.

Global PSSL emphasises the need to weigh voting and corporate engagement alongside stakeholder values.

Market participants should coordinate their voting policies internally and recognise their impact on revenue and the interests of the underlying investors through, for example, impact assessments. Such assessments could compare the shareholder's value of the vote balanced against the opportunity cost that impacts beneficial owners' commercial interests and liquidity in the long-term.

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## **Principle 8: Innovation and digitalisation**

### *Generalist Principle*

Global PSSL recognises that a broader stakeholder base can provide new solutions and technologies that enhance sustainable securities lending.

Market participants are encouraged to consider how new solutions can add value to the public interest by collaborating with Global PSSL.

Market participants should make use of technology in enhancing the accessibility of sustainable securities lending.

## **Principle 9: Continuous improvement**

### *Generalist Principle*

Global PSSL will encourage all signatories to share best practices through voluntary feedback with a view to maintaining, updating and putting these Principles into action.

We will maximise impact through this ongoing feedback.

Global PSSL will encourage central banks, international organisations and regulators to take part in periodic roundtables to evaluate Global PSSL's progress.



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## Strategic Themes for Global PSSSL

These Principles were developed in stages between 2018 and 2021 in the context of the following policy themes:<sup>1</sup>



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

# Global Principles for Sustainable Securities Lending



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*In the public interest of the broader community of stakeholders.*

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## **Disclaimer**

Global PSSSL, as voluntary high-level principles, do not create any legal rights or obligations. Global PSSSL will work on the recognition scheme in due course.

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