



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

PILOT GLOBAL PSSL REVIEW

RISCMTP-Notes

Contents

Introduction	2
Methodology	2
Summary of Review Outcomes	4
Global sustainable financial markets	4
Interconnected Collateral	5
Statement on the risk of greenwashing.....	6
Part 1: Benchmarking with respect to Global PSSL	7
Part 2: Benchmarking with respect to Global PSSL Draft Market Standard on Interconnected Collateral	14
The key participants	17
About Global PSSL	17
Disclaimer	17



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

Introduction

We have undertaken a pilot qualitative review of the RISC Managed Treasury Pool Notes Merganser-1 (RISCMTP-Notes) in respect of the [Global Principles for Sustainable Securities Lending \(2021\)](#) as well as the constituent elements of the Global PSSL draft forward-looking standard on [interconnected collateral for securities lending](#). The review aligns with the Global PSSL strategic direction of scaling up beyond the narrow securities lending field into a broader area across the \$€£ trillions finance agenda that we presented in our [3P Transparency Strategic Decision](#). It will, in turn, support our broader efforts to improve sound and interconnected collateral for liquid global markets and identify the role of sustainable finance in achieving this objective, whilst preventing greenwashing.

Methodology

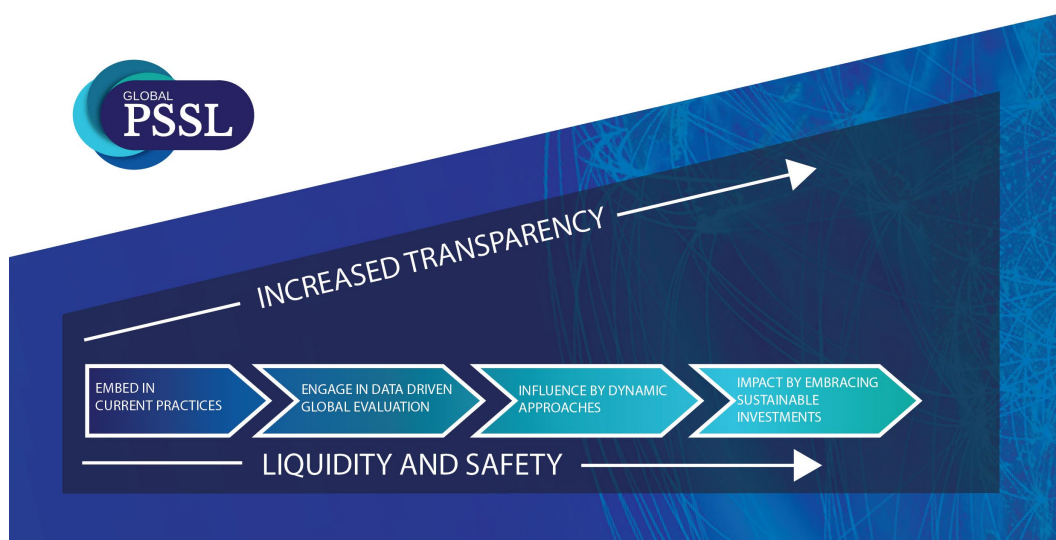
The review was based on a qualitative analysis of the publicly available information supplied by the RISC Financing Platform Designated Activity Company (the Issuer), Moody's (P)Aaa (sf) [rating report](#) on RISCMTP-Notes (27 April 2023) and interviews with the Issuer's agents (RISC Financing Platform Services (RISCfp)) and their consultants. We did not interview the other service providers for this pilot review, given the time and resource constraints.

The analysis was conducted through two substantive stages and one supporting safeguard procedural component: **1)** the analysis with respect to Global PSSL Principles and **2)** the analysis with respect to the constituent elements of the Global PSSL draft forward-looking standard on interconnected collateral for securities lending. The reviewers used a standard qualitative content analysis to match the key concepts and commitments embedded into these principles, and elements in the context of the information on RISCMTP-Notes. The pilot review was also supported by **3)** an internal 3P Transparency Declaration of Interests of the reviewers and the participants in the interview (Issuer's agent and their consultants) that was shared with a regulatory observer and a UN reviewer early in the review process.



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

1. The Stage One analysis was performed in respect of the nine Global PSSL Principles, with particular attention to the following principles: I. Sustainable finance alignment and development; II. Stakeholder involvement, inclusion and diversity; III. Transparency; IV. Interconnected sustainable finance collateral; VI. Values-based short selling; VIII. Innovation and digitalisation; and IX. Continuous improvement.
2. The Stage Two analysis was performed through all constituent elements in the Global PSSL draft forward-looking standard on interconnected collateral, presented in the graph below:



Even though there are some overlaps between the Principles and this standard, the former provide holistic guidelines on best practices for sustainable securities lending whereas the latter offers an opportunity to give effect to the fourth Principle on interconnected collateral through a more detailed forward-looking standard.

3. The 3P Transparency Declaration of Interests covered the public, private and polycentric interests of the Reviewers, the Issuer's agent and their consultants. The Secretariat shared the declaration with one regulatory observer and one UN reviewer, alongside a draft pilot review. These stakeholders were able to 1) ask routine questions that would be resolved speedily by the Secretariat or 2) call for explanations that would require Global PSSL to take additional steps to provide those explanations (e.g. obtain additional information; carry out another meeting with the Issuer's agent; or interview additional stakeholders).



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

Summary of Review Outcomes

Global PSSSL conducted this pilot review of the RISCMT-Notes through enhanced governance, evidenced by the internal 3P Transparency procedural analysis of key interests (in the review) between June and July 2023. We reviewed the Notes with respect to our nine Principles, (published with the participation of seventeen opening signatories in 2021) and the constituent elements of our draft standard on interconnected collateral (developed following a workstream with industry-wide participation (published in 2021 and edited in 2023)).

This section will present key outcomes relating to broader sustainability in financial markets, followed by a summary in relation to interconnected collateral. We will end with our statement on the risks of greenwashing that was also derived during the completion of the 3P Transparency procedural safeguard. Global PSSSL intends to test these findings further as part of a workstream that the issuer's agent is willing to support following the successful issuance of the RISCMT-Notes.

Global sustainable financial markets

We believe that RISCMT-Notes can play an important positive role in shaping global sustainable financial markets. Through our analysis in respect of Global PSSSL Principles and the standard on interconnected collateral, we have identified that the Notes can contribute to achieving several United Nations Sustainable Development Goals (SDGs):

Given the nature of the RISCMT-Notes as a proportional interest note, they are likely to contribute to maintaining and enhancing liquidity in the markets by offering an alternative to existing instruments – thus aligning with eighth SDG that emphasises economic growth.

The Notes' structure of control, owned in majority through intellectual property by a representative of the Black-American community, represents a clear example of advancing diversity in the financial services sector. This representative, and their diverse and inclusive team, is willing to encourage debate on the public interest elements of RISCMT-Notes. In doing so, they aim to include a broad base of stakeholders from multiple backgrounds which further strengthens the alignment with the tenth SDG for reducing inequalities.



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

Given the nature of the RISCMTN-Notes as a proportional interest note, Global PSSL has recognised the potential contribution of RISCMTN-Notes in minimising the risk of moral hazard and bailouts in financial services. We have reviewed broader developments re: Covid-19, bailouts to Money Market Funds (MMF), and the recent bank runs and agree with the issuer's agent that investors would benefit from increased access to information (re: RISCMTN-Notes) as part of the broader transparency agenda. Decreased burden on financial institutions and increased access to information contribute to achieving the sixteenth SDG that emphasises effective institutions at all levels and public access to information.

In addition to their willingness to foster debates, the issuer's agent has participated in our pilot 3P Transparency process, led by the Global PSSL UN Pathways Programme. This operates across a \$€£ trillions finance agenda, enabling stakeholders to consciously identify common goals, conflicts of interests and ways of working together through collaborations and partnerships. This is a clear opportunity to strengthen the seventeenth SDG that focuses on partnerships for the goals.

Interconnected Collateral

The RISCMTN-Notes do not represent a *sensu stricte* securities lending product but can be used as collateral in securities lending transactions, where fixed income constitutes collateral. Global PSSL advocates an inclusive and holistic approach to securities lending through the whole value chain perspective. Whereas the Issuer, and the Issuer's agent, are not considered as a 'securities lending business', we believe they can add significant value to securities lending by offering alternative liquid collateral instruments.

RISCMTN-Notes are neither designed nor marketed as an ESG instrument/collateral. Following our analysis and interviews, we have not found any evidence that the Notes could be materially positive or harmful in relation to ESG. Logically, we believe that RISCMTN-Notes are neutral with regards to the ESG collateral profile.



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

Global PSSSL recognises the potential contribution of RISCMTN-Notes to minimise the risk of moral hazard in financial services, whilst creating safe ESG-neutral fixed-income instruments for investors and asset owners (e.g. through the collateral eligibility of the Notes). Global PSSSL is willing to make further assessments in light of sustainability with appropriate stakeholders (e.g. regulators and central banks).

Statement on the risk of greenwashing

Global PSSSL has not identified a risk of greenwashing in relation to the Notes.



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

Part 1: Benchmarking with respect to Global PSSSL

The Global PSSSL initiative represents the most progressive and determined move towards uniting the sustainable finance ambitions of market leaders with the tenets of sustainable securities lending. Global PSSSL Principles date back to 2018 and have been revised on several occasions since then. This review is in respect of the latest revised Principles that were published with the participation of seventeen opening signatories in 2021.

Global PSSSL Principles	
Relevant Principle	Key Considerations:
<p>Principle 1 - Alignment</p> <p>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.</p> <p>We support this proactive approach to sustainable finance whilst following our own respective mandatory and voluntary mechanisms that govern securities lending.</p>	<p>1. Public interest</p> <p>The RISCMTN-Notes were reviewed by Moody's and carry a (P)Aaa (sf) rating. Such a rating indicates low risk of RISCMTN-Notes default to potential institutional investors.</p> <p>The RISCMTN-Notes represent a potentially new asset class called 'proportional interest notes' because they convey a proportional interest for every noteholder of a proportional share in each asset in the portfolio.</p> <p>The advantage of these notes sits in the proportional redemption structure, which removes the early-mover redemption advantage by delivering a share of each asset in the portfolio to redeeming investors, or the cash proceeds of selling their share of the assets. This leaves remaining investors indifferent to others redeeming, and not disadvantaged, because they are left exposed to the same assets as before. Investors in proportional interest notes like the RISCMTN-Notes are also not exposed to the risk of contagion because there is no risk per se in redeeming late, as there is no disadvantage in doing so. Hence, a given investor retains the same interest in the portfolio holdings irrespective of the actions of other investors. Our understanding is that one investor's decision to redeem, whether for a cash or in-kind delivery, impacts only that investor and does not create any urgency or incentive for other investors to follow suit, or an investment manager to make bulk sales of assets. The sale of a proportional share of each and every asset in the portfolio means that the investment manager is selling many small positions, which puts less downward price pressure on markets in volatile situations.</p>



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

Global PSSSL Principles	
Relevant Principle	Key Considerations:
	<p>Given the nature of the product as a proportional interest rate, it is likely to contribute to maintaining and enhancing liquidity in the markets by offering an alternative to existing instruments.</p> <p>2. Alignment with global and regional sustainable finance agendas</p> <p>We understand that RISCMTN-Notes will primarily contribute to enhancing stability, derivatives collateral and insurance regulatory collateral eligibility (i.e., they were designed to serve as primary security for funding US insurance principles-based reserves).</p> <p>Through interviews, the Issuer’s agent has declared interest in conducting more research into how potential new asset classes, such as RISCMTN-Notes, could be benchmarked against the sustainability criteria through a new workstream at Global PSSSL. We believe that this represents an outstanding opportunity to develop a clearer methodology (including metrics) that would help strengthen global and regional sustainable finance agendas. If successfully launched, RISCMTN-Notes would also provide an opportunity to validate a clear standard setting outcome developed by Global PSSSL (in the form of a Global PSSSL workstream devoted to liquidity, sustainability and criteria for new asset classes).</p> <p>We believe that RISCMTN-Notes can play an important positive role in shaping global sustainable financial markets. Subject to in-depth holistic analysis as part of a Global PSSSL workstream, we believe that RISCMTN-Notes can contribute to achieving the United Nations Sustainable Development Goals (SDGs). In particular, we would like to distinguish the following SDGs:</p> <ul style="list-style-type: none"> • The eighth SDG that emphasises economic growth because the RISCMTN-Notes can contribute to maintaining and enhancing liquidity in the markets. • The tenth SDG that emphasises the goal of reducing inequalities because of our analysis re: Global PSSSL Principle 2 below. • The sixteenth SDG that emphasises effective institutions at all levels and public access to information because of our analysis re: Principle 3 (Transparency) and the matters relating to moral hazard (see Liquidity and safety in line with investors’ criteria in Table 2 below). • The seventeenth SDG that emphasises partnerships for the goals because the issuer’s agent was willing to participate in our pilot 3P

Global Principles for Sustainable Securities Lending



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

Global PSSSL Principles	
Relevant Principle	Key Considerations:
	<p>Transparency process (see Methodology above) and was keen to foster debates on the public interest elements of the RISCMTN-Notes.</p>
<p>Principle 2: Stakeholder involvement, inclusion and diversity</p> <p>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.</p>	<p>Global PSSSL has examined the commercial structure of the RISCMTN-Notes in relation to Diversity and Inclusion (D&I). A Black-American representative has a majority stake in the company (RISC Financing Platform Solutions LLC) that provides intellectual property (IP) to the sponsoring company (RISC Financing Platform Services Limited). The latter company controls the issuer of RISCMTN-Notes that is RISC Financing Platform DAC, based in Ireland. This structure of control through IP represents a clear example of advancing diversity in the financial services.</p> <p>Beyond commercial interest, the Issuer’s agent wants to encourage debate on the public interest elements of RISCMTN-Notes. In doing so, they aim to include a broad base of stakeholders from multiple backgrounds. This strategy is designed to stimulate innovative thinking and demonstrate the beneficial impact of implementing D&I policies.</p> <p>The Issuer’s agent is willing to continue dialogue in relation to the ethnic minority’s ownership, alongside other themes relating to broader matters of D&I in the financial services sector. The Issuer’s agent is willing to collaborate with Global PSSSL on these matters.</p> <p>Global PSSSL recognises the Issuer’s agent’s commitment to promoting D&I in opening up debates beyond the comfort zone of its expert base. Such an approach sets a positive example for stakeholders in the securities lending field.</p> <p>Overall, we are confident that the issuance of the RISCMTN-Notes will contribute to achieving the United Nations 10th Sustainable Development Goal (Reduced Inequalities) and positively advance global sustainable financial markets.</p>
<p>Principle 3: Transparency</p> <p>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.</p>	<p>1. Increased transparency</p> <p>Through extensive interviews, the Issuer’s agent has declared interest in using RISCMTN-Notes as a potentially new asset class to increase transparency in markets struck by the recent crises (Covid-19, bailouts to Money Market Funds (MMF), and the recent bank runs). We have reviewed these broader developments and agree that investors would benefit from increased access to information re: RISCMTN-Notes as part of the broader transparency agenda. It would lead to enhancing transparency in the ‘collateral’ element of the securities</p>



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

Global PSSSL Principles	
Relevant Principle	Key Considerations:
<p>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)).</p>	<p>lending and sustainable finance agenda. This would in turn increase resilience to future market shocks, which would support a more stable financial system. In particular, the Issuer is willing to work with Global PSSSL and other stakeholders to provide accurate information on the relationship between RISCMT-Notes, collateral, repo, regulatory requirements and securities lending. Should the Issuer be successful in launching RISCMT-Notes, they are willing to work on these relationships as part of a Global PSSSL workstream. The workstream and its resultant standards and reports, in turn, would constitute a clear positive outcome with regards to transparency.</p> <p>2. Standardisation of key components in adherence with Global PSSSL</p> <p>Through extensive interviews, the Issuer has declared interest in using the successfully launched RISCMT-Notes to develop new sustainability methodology and metrics with Global PSSSL. Such solutions would have to cover matters relevant to securities lending such as collateral and repo. We strongly believe that such a commitment can lead to a clear positive outcome that would further increase transparency in the securities lending and broader securities finance sectors.</p>
<p>Principle 4: Interconnected sustainable finance collateral</p> <p>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. 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</p>	<p>1. Whole value chain perspective</p> <p>The RISCMT-Notes do not represent a <i>sensu stricte</i> securities lending product but can be utilised as collateral in the securities lending transactions, where fixed income constitutes collateral. Global PSSSL advocates an inclusive and holistic approach to securities lending through the whole value chain perspective. Whereas the Issuer, and the Issuer’s agent, are not considered as a ‘securities lending business’, we believe, they can add significant value to securities lending by offering alternative liquid collateral instruments.</p> <p>Following our whole value chain analysis, we recommend that the Issuer and the service providers strive to launch the RISCMT-Notes with help of International Central Securities Depositories (ICSDs). The Issuer would benefit from the access to deep markets and, in turn, could increase the visibility of the Notes.</p> <p>2. ESG-compliant collateral baskets</p> <p>RISCMT-Notes are neither designed nor marketed as an ESG instrument/collateral. Following our analysis and interviews, we have not found any evidence that the Notes could be materially positive or harmful in relation to</p>



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

Global PSSSL Principles	
Relevant Principle	Key Considerations:
current collateral infrastructure to realise the full impact potential.	<p>ESG. Logically, we believe that RISCMTN-Notes are neutral with regards to its ESG collateral profile.</p> <p>Having said that, RISCMTN-Notes constitute an example of a potential new asset class that can increase investors’ knowledge and, choices in relation to diversified collateral. In that sense, but subject to individual institutions’ liquidity buffers, the Notes could be commingled with collateral instruments which are ESG focussed but, potentially, less liquid. Moreover, as indicated above, the Issuer is willing to work with Global PSSSL to develop new methodologies for measuring links between liquidity, collateral and sustainability and the neutral ESG status of RISCMTN-Notes is a good foundation to build upon.</p> <p>Such additional analysis will enable Global PSSSL also to identify clearer pathways for RISCMTN-Notes positive role in shaping global sustainable financial markets.</p>
<p>Principle 5: Supportive tax</p> <p>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.</p> <p>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 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.</p>	<p>This Principle is not applicable because “[t]he issuer is not anticipated to be subject to withholding tax.” (Moody’s (P)AAA (sf) rating report on RISCMTN-Notes (27 April 2023), p. 10)</p>
<p>Principle 6: Values-based short selling</p> <p>As for securities lending, Global PSSSL supports covered short selling which contributes to achieving values beyond mere financial gain.</p>	<p>The RISCMTN-Notes represent a fixed income instrument that may be subject to short selling. Global PSSSL understands that the Issuer’s agent is aware of the benefits of short selling in enhancing market liquidity.</p>



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

Global PSSSL Principles	
Relevant Principle	Key Considerations:
<p>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.</p>	<p>Since short selling provides opportunities to discover poor governance and forms of greenwashing, Global PSSSL would like to emphasise:</p> <ul style="list-style-type: none"> - The Issuer’s agent put much emphasis on good operational governance. We understand Investors will be able to access the underlying portfolio as held by the custodian. - The Issuer’s agent complemented Moody’s rating with this pilot Global PSSSL review that included our analysis of key interests (pilot 3P Transparency, see Methodology above) shared with a regulatory observer and a UN reviewer. Global PSSSL addressed the questions and there were no calls for explanations. - Through, our analysis of the Notes with respect to our Principles on Transparency and Interconnected Collateral, Global PSSSL has not identified a risk of greenwashing in relation to the Notes.
<p>Principle 7: Voting and engagement</p> <p>Global PSSSL 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.</p> <p>Global PSSSL emphasises the need to weigh voting and corporate engagement alongside stakeholder values.</p> <p>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.</p>	<p>This Principle is not applicable because RISCMTN-Notes are a fixed-income instrument.</p>



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

Global PSSSL Principles	
Relevant Principle	Key Considerations:
<p>Principle 8: Innovation and digitalisation</p> <p>Global PSSSL recognises that a broader stakeholder base can provide new solutions and technologies that enhance sustainable securities lending.</p> <p>Market participants are encouraged to consider how new solutions can add value to the public interest by collaborating with Global PSSSL.</p> <p>Market participants should make use of technology in enhancing the accessibility of sustainable securities lending.</p>	<p>The Issuer and the Issuer’s agent are a multi-client financing/investment platform that works outside the securities lending field. They host solutions to the cash, capital, risk and collateral financing challenges facing large corporations, regulated financial institutions and alternative asset managers.</p> <p>Clearly, the Issuer and the Issuer’s agent represent a broader stakeholder base (outside the narrow field of securities lending experts) that are ready and willing to collaborate on new solutions that can enhance sustainable securities lending. These new solutions can be understood twofold: 1) a willingness to advance Global PSSSL as an impartial standard on sustainable securities lending and broader securities finance when appropriate, and 2) provide innovative collateral solutions that can be used as part of diversified, sustainable collateral baskets.</p>
<p>Principle 9: Continuous improvement</p> <p>Global PSSSL 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 PSSSL will encourage central banks, international organisations and regulators to take part in periodic roundtables to evaluate Global PSSSL’s progress.</p>	<p>The Issuer’s agent is willing to take part in the continuous improvement of Global PSSSL following the successful launch of the Notes.</p> <p>Global PSSSL would recommend that the Issuer’s agent and the other service providers become signatories to Global PSSSL to fully utilise the potential of the evaluation process, inclusive of international organisations, central banks and regulators.</p>

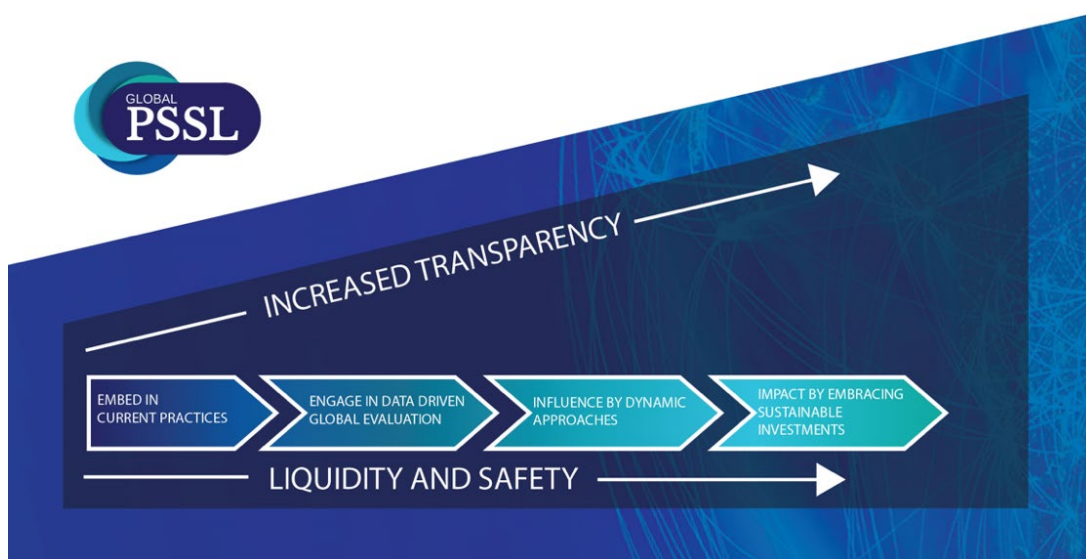


Creating a Global ESG Market Standard for Owners, Lenders, Borrowers and Impact Creators

Part 2: Benchmarking with respect to Global PSSSL Draft Market Standard on Interconnected Collateral

In 2019, several beneficial owners and the Sustainable Finance, the Law, Stakeholders (SFLS) programme at Exeter Law School agreed that the “primary purpose of the collateral in securities lending is to mitigate counter-party risk” and that “securities lending collateral parameters, such as exclusion lists, should be considered in ESG strategies” (PSSL 2020). However, that developmental stage included a forecast that clearer and more focussed inclusion of environmental and social matters would form part of collateral later in the future. That was embedded by independent and impartial Global PSSSL in the draft principle on collateral in December 2020 and and reinforced in the revised Global PSSSL in 2021.

Thereafter, following a [workstream on interconnected collateral](#), Global PSSSL published a draft [forward-looking standard](#) that has a strong components relating to liquidity and transparency. It was designed to serve as a minimum forward-looking standard that will embed ESG into collateral in securities lending and enhance the broader sustainable finance agenda. The key components of the standard are presented in the below graph:





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

Draft Forward-Looking Market Standard on Interconnected Collateral for Securities Lending	
Summary of the Element	Key Considerations
<p>Embed in current practices</p> <p>ESG considerations should be embedded into the collateral lifecycle as part of good governance that ensures safety and maintains transparency.</p>	<p>As stated above, RISCMTN-Notes are ESG-neutral and could form part of ESG-diversified collateral baskets. In the context of the Global PSSSL minimum standard, the Issuer and the Issuer’s agent could consider how to ensure that asset owners are aware of such solutions as part of the onboarding element of the collateral lifecycle.</p> <p>Following the interviews, Global PSSSL is satisfied that the Issuer’s agent is able to meet this element of the standard. This is evidenced by their willingness to involve asset owners in appropriate and transparent debates regarding such collateral baskets.</p>
<p>Engage in data-driven global evaluation</p> <p>This element of the standard encourages global debates and evaluation through an annual roundtable that will complement the day-to-day activities of Global PSSSL. The annual roundtable should bring together the Global PSSSL leadership, regulators, central banks and data providers to discuss the challenges, barriers and opportunities in moving forward the collateral agenda.</p>	<p>The Issuer and the Issuer’s agent meet this requirement of the minimum standard. This is evidenced by the current review of RISCMTN-Notes and their willingness to participate in Global PSSSL evaluations including such stakeholders as central banks and regulators. The Issuer’s agent appreciates the impartiality of Global PSSSL in arranging such evaluations.</p>
<p>Influence by dynamic approaches</p> <p>This element of the standard is forward-looking to encourage more dynamic approaches to select securities collateral schedules by the beneficial owners (and their agents, when appropriate) as well as taking a more proactive approach to cash reinvestments and re-use of collateral by stakeholders.</p>	<p>ESG-neutral RISCMTN-Notes could form part of diversified sustainable baskets by allowing for the inclusion of potentially less liquid sustainable assets.</p>
<p>Impact by embracing sustainable instruments</p> <p>Currently, stakeholders prefer to accept liquid and safe collateral in order to ensure the regulatory compliance and micro- and macro-economic safety.</p> <p>Global PSSSL would like to encourage and promote consideration of the use of green/sustainability/social and other sustainable finance related bonds as collateral. Such bonds are usually long-term instruments which are less liquid. However, some investors may accept these as being consistent with overall portfolio objectives.</p>	<p>There is no immediate impact with regards to this component of the standard given the ESG-neutral RISCMTN-Notes re: collateral.</p> <p>In light of the interviews, the Issuer’s agent is willing to consider ESG-focused US Government bills as part of the RISCMTN-Notes’ portfolio. The Issuer’s agent agreed with Global PSSSL that such a possibility would need to be supported with further research, analysis and evaluation as part of a Global PSSSL workstream.</p>

Global Principles for Sustainable Securities Lending



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

Draft Forward-Looking Market Standard on Interconnected Collateral for Securities Lending

Summary of the Element	Key Considerations
<p>Increased transparency</p> <p>Sustainable finance is complex, and the overall objective is to redirect capital into programmes and projects that align with the climate agenda and sustainable development goals. This raises the risk of green washing, social washing and governance failures if stakeholders become over-optimistic and either jump to conclusions too early or accept proclamations at face value. Transparency is the key mechanism that can mitigate this risk.</p>	<p>The Issuer’s agent is not intending to oversell the RISCMT-Notes on the basis of inflated sustainability and ESG-related claims. In addition to their commercial interest, they are willing to increase market transparency by:</p> <ol style="list-style-type: none"> 1) fostering debates in relation to the current applicability of the Notes as liquid and ESG-neutral constituent elements of diversified sustainable baskets; 2) considering using ESG-focussed government bills as an underlying asset for their Notes subject to additional research, analysis and evaluation; in doing so, they are willing to foster well informed debates on the links between collateral, liquidity and sustainability; <p>Having also considered other factors (see Principle 3: transparency and Principle 4, Interconnected collateral above), Global PSSSL has not identified a risk of greenwashing in relation to the Notes.</p>
<p>Liquidity and safety in line with investors’ criteria</p> <p><i>Macro-perspective – costs to the financial system</i></p> <p>All organisations engaged in securities lending should ensure that collateral management and associated eligibility schedules and collateral re-use do not pose risks to global financial stability and liquidity. In so doing, there are appropriate regulatory frameworks that organisations must adhere to.</p> <p>The broader community of stakeholders should ensure that new sustainability solutions and proposals for securities lending are adequately considered and attributed to the impact creators (if such solutions improve the safety of financial systems).</p> <p><i>Micro-perspective – costs to individual organisations</i></p> <p>Collateral flows can be very extensive, often spanning organisations and jurisdictions. Agent lenders, tri-party collateral agents and prime brokers all play key roles in facilitating these collateral flows within securities lending but also in the wider securities finance spectrum. These activities rely on best available technology to enhance the benefits to the ultimate beneficiaries of the securities lending transactions: beneficial owners and end users.</p>	<p>The Issuer’s agent has put much emphasis on and displayed expert knowledge re: macro issues (financial safety and stability) and micro perspectives (costs to individual organisations).</p> <p>According to the Issuer’s agent, the nature of proportional interest notes, such as the RISCMT-Notes, is that the investors would not have any financial incentives to redeem the Notes during periods of financial stress. Because the investors own a proportional share of each asset backing the Notes this means that they are not disadvantaged by the behaviour of other investors. This, therefore, decreases the need to create safety nets by the regulators and, in turn, decreases the risk of moral hazard and bail-outs.</p> <p>Global PSSSL recognises the potential contribution of RISCMT-Notes to minimise the risk of moral hazard in financial services whilst creating safe ESG-neutral fixed-income instruments for investors and asset owners (e.g. through the collateral eligibility of the notes). Global PSSSL is willing to make further assessments in light of sustainability with appropriate stakeholders (e.g. regulators and central banks).</p>



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

The key participants

This review was led by Dr Radek Stech (CEO of Global PSSL, accountable to The Office of the Regulator of Community Interest Companies). With significant inputs from Mr Kenneth Gutwillig (Executive Director of the Global PSSL College of Advisors) and Mr Godfried De Vidts (Strategic Advisor on Securities Finance). The review was verified by Ms Fiona Darroch (Global PSSL Independent Counsel). Stech sourced comments from an anonymous UN Reviewer following the completion of the 3P Transparency Declaration of Interests.

3P Transparency Declaration of Interests was shared with a UN reviewer and a regulatory observer.

About Global PSSL

Global Principles for Sustainable Securities Lending (Global PSSL) is the fundamental independent and impartial global mechanism for aligning securities lending with transparency and sustainable finance. It has been co-created by Dr Radek Stech, prominent asset owners, asset managers, sovereign wealth funds, banks, hedge funds other stakeholders committed to positive change since 2018. In order to preserve its impartiality, the Global PSSL framework was based within its own independent community interest company (CIC) in 2020. Since then, Global PSSL published revised principles (2021) and several forward-looking guidelines and standards on interconnected collateral, emerging markets, short selling and ESG. In 2022, Global PSSL launched its United Nations (UN) Pathways Programme with UN senior experts as external peer reviewers.

Disclaimer

This review has been fully funded by Global PSSL CIC and is for information purposes only. Neither Global PSSL CIC, nor the review contributors, accepts any liability for the information and opinions contained herein.

All rights reserved 2023

© Global Principles for Sustainable Securities Lending (Global PSSL) CIC

Do not copy or reproduce this document without the express permission from Global PSSL CIC. Please contact: radek.stech@gpssl.org

Global PSSL is governed and run by a non-profit and impartial Community Interest Company registered in England and Wales with company number 12936602.