Securities Lending Lifecycle – Overview

Securities lending is the temporary transfer of securities (such as stocks or bonds) from a lender to a borrower, typically to support short selling or to cover settlement obligations. Here's how a typical lending transaction flows operationally:

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1. Locate Request

A borrower initiates a request to borrow specific securities. The lending desk checks availability in their internal inventory or through custodians and agent lenders.

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2. Trade Negotiation and Booking

Once availability is confirmed, the terms of the loan are finalized including the fee, duration, type of collateral (cash or non-cash), and settlement instructions. The trade is then booked in the system.

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3. Settlement and Collateral Exchange

The actual movement of securities occurs on settlement day (T+0 or T+1). Simultaneously, the borrower delivers collateral, and this is monitored for mark-to-market compliance.

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4. Ongoing Collateral Management

Collateral is revalued daily to account for market movements. If the value of the loaned securities changes, margin calls are issued or excess collateral is returned.

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5. Corporate Actions and Voting

While the borrower temporarily holds the securities, the lender retains the economic benefits such as dividends or interest which the borrower must compensate through payments. Lenders may recall securities prior to record dates.

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6. Recall or Voluntary Return

The lender may issue a recall at any time. Alternatively, the borrower may return the securities before or at the end of the agreed term.

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7. Reconciliation and Exception Handling

Daily reconciliations are carried out to match internal records with custodians and counterparties. Breaks such as unmatched returns, incorrect collateral, or missing corporate action claims are logged, tracked, and resolved through communication and investigation.
