

ISLA Paper Clarifies Relationship between Securities Lending and Good Corporate Governance

A paper published today (4 July 2005) by the International Securities Lending Association (“ISLA”) challenges the myth that securities lending poses a threat to good corporate governance and makes a series of recommendations for good practice.

Written by Mark Faulkner, a leading industry consultant, the ISLA paper uses data taken from recognised industry sources to substantiate its findings. The information collated demonstrates that other factors are more significant than securities lending when influencing voting behaviour; the data shows the scale of securities lending does not typically exceed the voluntary disenfranchisement seen typically at AGMs.

The paper offers a series of measures that should be implemented by lending institutions to enable securities lending to be in line with good corporate governance. These recommendations include:

- Transparency – All stakeholders, not just securities lending professionals, e.g. fund managers and corporate governance professionals, should have a thorough working knowledge of the overall framework necessary to combine good corporate governance with a successful securities lending programme.
- Consistency – A clear policy is required so that any perceived economic conflict between the securities lending income forgone and the “value” of recalling to vote is addressed explicitly.
- Information – All stakeholders should have access to the necessary information in time to make informed decisions.
- Timing – Issuers might consider the scheduling of the dividend timetable and the possibility of further separating the record date from the AGM. This would allow lenders to participate in dividend related lending activity with less voting conflict.

Commenting on the paper, Richard Steele, Chairman of ISLA said, “The paper was commissioned to clarify the procedures that many institutions already have in place to ensure that securities lending programmes are well managed and consistent with good corporate governance. The paper clearly shows that the conflict between the two is already minimal, and can be reduced further if lenders are conscientious with internal policies and procedures; the onus is on the individual responsibility of the institution”

Mark Faulkner, Managing Director of Spitalfields Advisors commented, “We welcome the opportunity to work with ISLA on this important paper. The conclusions we reached are based on information gathered from a wide range of independent sources ensuring complete impartiality and neutrality.”

The ISLA paper is available free from the ISLA website www.isla.co.uk and from www.treasurers.org/ISLApres_release

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Notes for Editors

The International Securities Lending Association

The International Securities Lending Association (“ISLA”) is a trade Association established in 1989 to represent the common interests of the Securities lending industry. ISLA assist in the orderly, efficient and competitive development of the International securities lending market. In this regard, ISLA works closely with regulators and in the UK has representation on the Stock Lending and Repo Committee, a committee of market practitioners chaired by the Bank of England. The Association has contributed to a number of major market initiatives, including the development of the UK Stock Borrowing and Lending Code of Guidance and the industry standard lending agreements, the Overseas Securities Lending Agreement (OSLA) and the Global Master Securities Lending Agreement (GMSLA)

Today, ISLA has over 70 members comprising insurance companies, pension funds, asset managers, banks and custodians representing more than 4,000 clients. In September 2004, ISLA changed its constitution to allow borrowers to become members for the first time. The geographic spread of ISLA's client base is global in nature, comprising substantial representation from the UK and the other EU member states in addition to other major financial centres such as Switzerland and the United States.

Aims The aims of the Association are:

- To represent the common interests of institutions engaged in the lending or borrowing of securities, their agents and custodians in the European and International securities lending markets.
- Assisting in the orderly, efficient and competitive development of these markets.
- Establish agreed standards and good working practices.
- Provide a forum for the development and exchange of ideas and information.
- Liaison with Regulators and other organisations to promote and develop appropriate regulatory frameworks for the industry.
- To promote awareness of future challenges and opportunities.
- To develop and maintain a legal agreement for use in the securities lending industry.

Spitalfields Advisors Limited

Founded by Bill Cuthbert and Mark Faulkner, Spitalfields Advisors is an independent consultancy firm specialising in securities lending advice. Its focus is upon the provision of consultancy services to institutions active, or considering becoming active, in the securities finance markets. Spitalfields Advisors assists institutions embarking on securities lending reviews or RFP processes. The company also reviews existing programmes and suggests opportunities for improvement. The firm's approach is based upon the following premise: Securities Lending is a low risk, revenue generating adjunct for businesses that either own or trade large volumes of listed securities. For a business that makes a steady incremental return, it is a market that can lack the attention and analysis it deserves. For further information, please go to our website www.spitalfieldsadvisors.com

Mark C. Faulkner

A graduate of the London School of Economics, Mark has spent his career specialising in International Securities Finance. From 1987 to 1995, he held management responsibility at L.M. (Moneybrokers) Ltd., Goldman Sachs and Lehman Brothers. He has experience as lender, borrower, conduit borrower and prime broker. During this time he worked closely with the UK Inland Revenue and has represented firms at the Bank of England's SBLC and The London Stock Exchange's securities lending committees. In 1995 he co-founded Securities Finance International. Building upon nearly a decade as an independent advisor, in 2004 he co-founded Spitalfields Advisors, an independent consultancy firm specialising in securities lending advice. In 2004 he was commissioned to write *An Introduction to Securities Lending*. Mark is also the CEO of Data Explorers Limited a specialist data services company.