DEPUTY GENERAL MANAGER
Market Regulation Department – Division of Policy
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SEBI/MRD/DoP/SE/Dep/Cir- 01 /2010
January 06, 2010

1. The Executive Directors/Managing Directors of all Stock Exchanges
2. Managing Director and CEO, NSDL
3. Managing Director and CEO, CDSL

Dear Sir/ Madam,

**Sub: Review of Securities Lending and Borrowing (SLB) Framework**

The framework for SLB was specified vide circular no. MRD/DoP/SE/Dep/Cir- 14/2007 dated December 20, 2007 and was operationalised with effect from April 21, 2008. The SLB framework was revised vide circular no. MRD/DoP/SE/Cir-31/2008 dated October 31, 2008. Pursuant to feedback received from market participants and proposals for revision of SLB received from NSE and BSE, the framework is now modified as under:

1. The tenure of contracts in SLB may be upto a maximum period of 12 months. The Approved Intermediary (Clearing corporation/ Clearing House) shall have the flexibility to decide the tenure (maximum period of 12 months).

2. The lender / borrower shall be provided with a facility for early recall / repayment of shares.

3. In case the borrower fails to meet the margin obligations, the Approved Intermediary (AI) shall obtain securities and square off the position of such defaulting borrower, failing which there shall be a financial close-out.

4. In case lender recalls the securities anytime before completion of the contract, the AI on a best effort basis shall try to borrow the security for the balance period and pass it onward to the lender. The AI will collect the lending fee from the lender who has sought early recall.

5. In case of early recall by the lender, the original contract between the lender and the AI will exist till the contract with the new lender for the balance period is executed and the securities returned to the original lender.

6. In case of early repayment of securities by the borrower, the margins shall be released immediately on the securities being returned by the borrower to the AI. The AI shall on a best effort basis, try to onward lend the
securities and the income arising out of the same shall be passed on to the borrower making the early repayment of securities.

7. In case AI is unable to find a new borrower for the balance period, the original borrower will have to forego lending fee for the balance period.

8. Incase of early recall by lender or early repayment of securities by borrower, the lending fee for the balance period shall be at a market determined rate.


10. Exchanges and Depositories are advised to
    
a. take necessary steps and put in place necessary systems for implementation of the above at the earliest;

b. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above;

c. issue necessary instructions to the member brokers/clearing members and depository participants and also to disseminate the same on the website.

11. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 and Section 19 of the Depositories Act, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

HARINI BALAJI