Insights
Hybrid

September 2023

What Is Securities Lending?

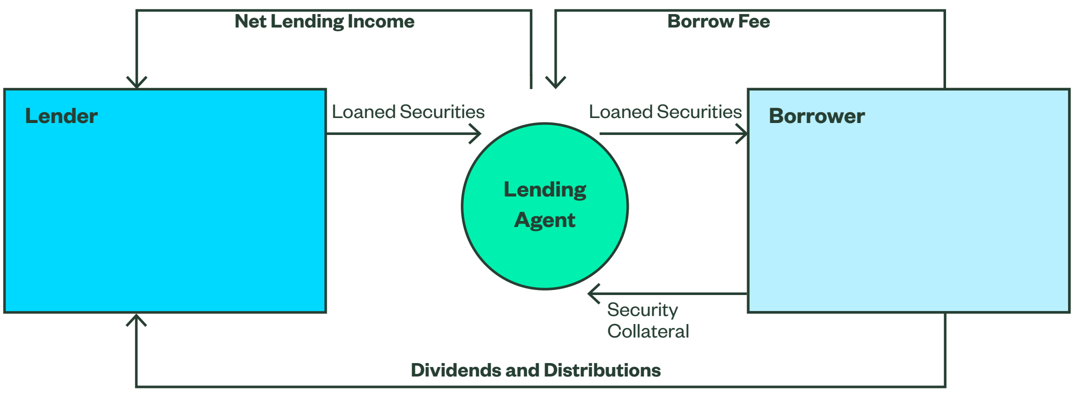
A securities lending transaction involves the temporary transfer of securities from one party (the lender) to another party (the borrower). Frequently, a securities lending agent (the agent) is employed by the lender to facilitate the transaction. Securities lending enables funds enrolled in a securities lending program to potentially generate an additional source of income.

The securities borrower is typically a financial intermediary, such as a broker, dealer or market maker. When borrowing the securities from a fund, the borrower transfers collateral to the lending agent who holds that collateral in an account in the lender's name to mitigate the risk the borrower doesn't return the security.

The borrower pays a fee to the lender for borrowing the securities. Sometimes, if cash is transferred as collateral, the borrower may expect interest to be paid on the cash (a rebate). In this case, instead of a borrow fee, the lender will earn the interest differential between what is earned by investing the cash in money markets and the rebate due to the borrower. The agent will typically retain a portion of the borrow fees, or interest differential, as a fee for their service.

During the term of the loan, the collateral is marked to market daily. The borrower is obligated to forward all distributions and dividends arising during the period of the loan to the lender, so the lender receives the economic benefits as if the securities were held in custody. The lender does forfeit the right to exercise proxy voting rights of the security arising during the period of the loan. The loan may be closed any day at the discretion of the either the borrower or the lender.

Figure 1
How the Securities Lending Program Works?



The information contained above is for illustrative purposes only.

Why Lend Securities?

- Generate additional performance on unutilized securities laying dormant in custody accounts
- Offset operational expenses, custody costs, and management fees
- Improve price transparency and help prevent artificial price bubbles
- Facilitate better market liquidity and reduce market execution costs

Potential Risks

As with all investment activities, securities lending bears risk. Here are some of the key risks and mitigants typically used to control the risk.

Figure 2
Risk & Mitigation

Risk	Description	Mitigants
Reinvestment Risk	• Risk of loss in cash collateral reinvestment (credit, interest rate, liquidity, etc.) • Generally, the largest risk in funds accepting cash collateral	• Avoidance of Cash Collateral • Conservative management of cash collateral reinvestment fund
Borrower Default Risk	• Risk of borrow/counterparty defaulting (e.g. bankruptcy) and unable to return securities to the lender	• High quality borrower selection • Over-collateralization / daily mark-to-market • Accepted collateral types, diversification, liquidity testing • Borrower default indemnification
Operational Risk	• Risk of failed settlements due to securities on loan • Miscommunication of corporate action elections • Tax and regulatory guideline breaches, etc.	• Fund limits with buffers relative to regulatory guidelines • Position limits with buffers • Capabilities and breadth of lending agent • Strong communication and operational controls

Source: State Street Global Advisors, as of 31 August 2023.

Want to Know More

To learn more about unlocking the securities lending potential of UCITS ETFs, we invite you to visit our website.

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* Pensions & Investments Research Center, as of December 31, 2022.
† This figure is presented as of June 30, 2023 and includes approximately $63 billion USD of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Investing involves risk including the risk of loss of principal.

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Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

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