



# **Re-Allocation Instructions Market Practice**

## **Securities Lending Working Group**

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### **DISCLAIMER**

This market practice document has been developed by the International Securities Association for Institutional Trade Communication (ISITC) as a statement of professional practices recommended by ISITC. Institutions providing the information recommended in this document will benefit from the efficiencies inherent in a more automated transaction process. Although all institutions are encouraged to act consistently with this document, none are required to do so, and a failure to do so is not, in and of itself, evidence of negligent or inappropriate conduct.



## Document History

Version #	Change Date	Description of Change	Page
1.0	Nov 07, 2007	Initial Draft – David Reinknecht	
2.0	June 18,2008	Updates from the June 2008 conference	
2.1	June 19,2008	Changes made for V 2.0 discussed and accepted during Conference call(6/19/08). Corrected spelling for Recipient throughout the document and removed LINK//WITH references from the examples	
3.0	Dec. 17, 2008	FINAL version approved by ISITC Board.	



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## 1.0 Introduction

The purpose of this document is to define and outline business requirements and best practices for the transmission of Re-Allocation Instructions within the Securities Lending industry. The ISITC Securities Lending Working Group works to define the best practices and set market practice for electronic messaging using standards. Upon the identification and detail documentation of best practices, this document also incorporates and provides explanation for the use of various syntax or formats for communicating the required information to support the best practices.

### 1.1 Scope

The Re-Allocation instruction message is sent by the lending agent to the custodian where the underlying securities are maintained. The Lending Agent may or may not be the owner of the underlying assets, but will be authorized to conduct lending on behalf of the portfolio's owner. The purpose of the re-allocation instruction is to effect moves that alter the loan assignment (or a portion thereof) from one fund to another fund. This re-assignment of loan position does not involve delivery/receipt from the counterparty holding the loaned securities.

All types of financial instruments eligible for securities lending are in scope for this message, including, but not limited to corporate bonds, equities and government securities.

As a result of a SR2007 change the message allows the instruction to identify the transaction as both a securities lending transaction and a re-allocation.

This Market Practice is for a re-allocation executed by a non-custodial 3<sup>rd</sup> party lender. The re-allocation is between accounts at the same custodian such that the movement is only a book entry transaction on the custodian's books. There are no messages transmitted to the street.

### 1.2 Definitions

There are certain terms that are commonly used throughout this document. In the spirit of insuring clarity, these terms are identified and defined below.

#### **Lending Agent –**

**Re-Allocation** - an internal reallocation of loan position from one custody account into another custody account. The outright ownership position is never impacted, as custody position must exist in order to execute the change on loan position. The realignment is generally done internally at the bank and requires no communication or instruction to/from the counterparty the loan is out with. The custody banks will recognize this transaction as a vault switch. Situations do exist where re-allocations are done across custodians; however the basic process flow remains the same. This transaction is often used to realign position to satisfy a pending sale on the outright side. (See Example 2 Section 1.5)

### 1.3 Actors and Roles

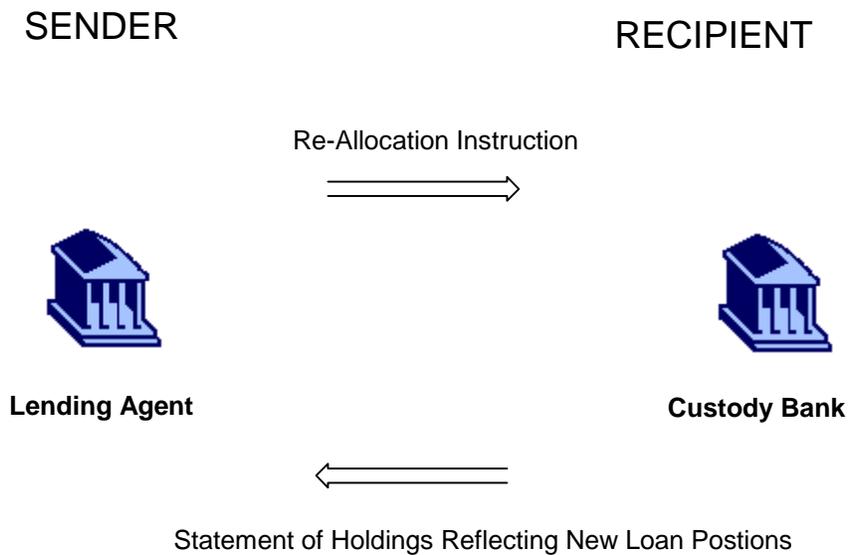
There are two distinct roles involved in holdings reporting:

- Sender - Lending Agent
- Recipient - Custodian

There are two actors involved in the process. Each Actor plays one distinct role in the process

Sender	Recipient
<ul style="list-style-type: none"> <li>• Lending Agent</li> </ul>	<ul style="list-style-type: none"> <li>• Custodian</li> </ul>

### 1.4 Sequence Diagrams



## 1.5 Activity Diagram

Example 1 -Security 450295AC4

### Prior to the realignment

Custody Acct 12345

Ownership	1,000,000
Out on Loan	50,000

Custody Account 98765

Ownership	100,000
Out on Loan	20,000

### After the realignment

Custody Acct 12345

Ownership	1,000,000
Out on Loan	25,000

Custody Account 98765

Ownership	100,000
Out on Loan	45,000

Example 2 - Assume a pending sale on 450295AC4 for 975,000 out of Custody Acct 12345

### Prior to the realignment

Custody Acct 12345

Total Ownership	1,000,000
Qty in the Vault	950,000
Out on Loan	50,000

Custody Account 98765

Total Ownership	100,000
Qty in the Vault	80,000
Out on Loan	20,000

### After the realignment

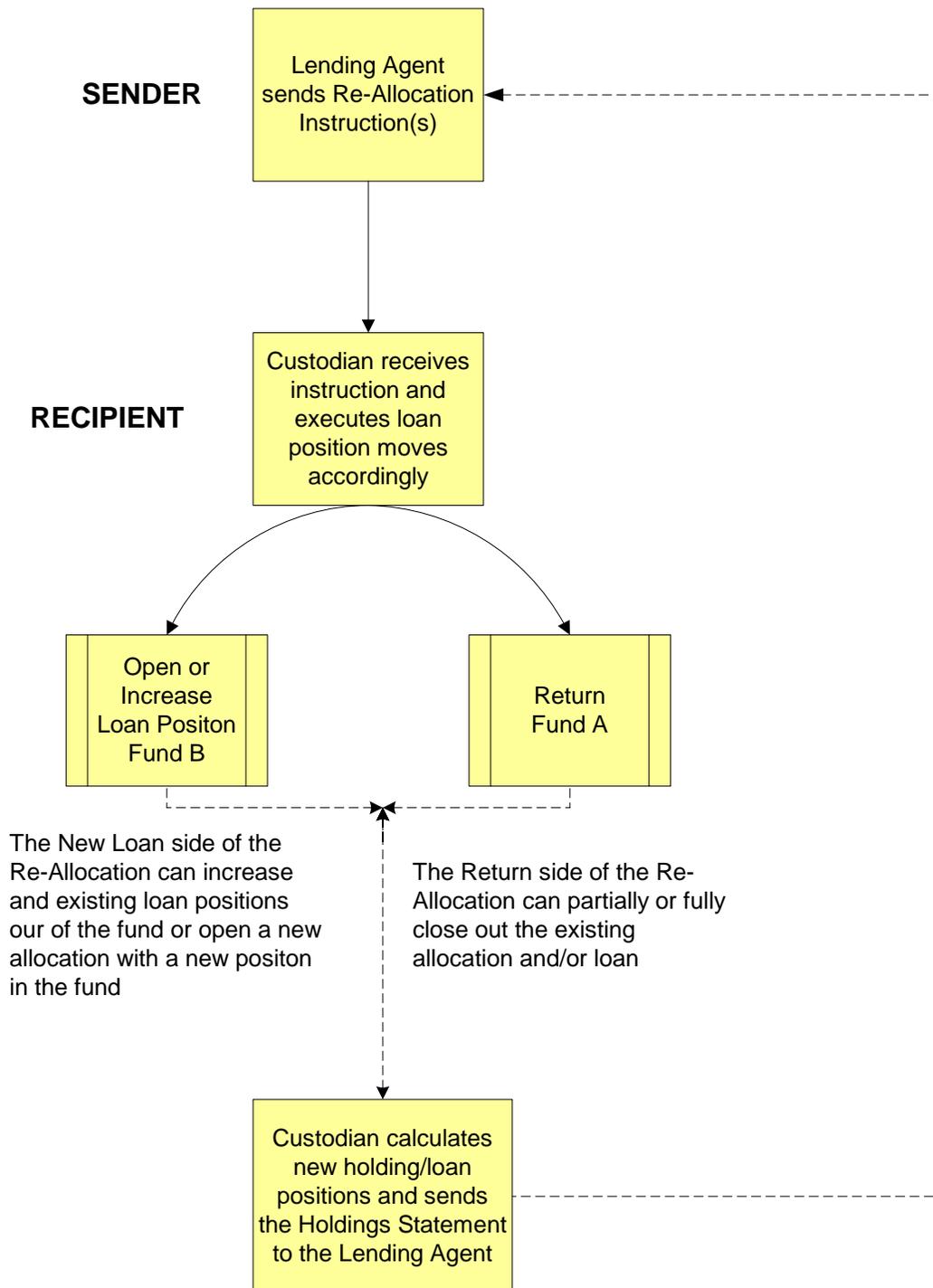
Custody Acct 12345

Total Ownership	1,000,000
Qty in the Vault	975,000
Out on Loan	25,000

Custody Account 98765

Total Ownership	100,000
Qty in the Vault	55,000
Out on Loan	45,000

By moving 25,000 on loan position from Custody Acct 12345 to Custody Acct 98765, the Vault amount increases in Acct 12345 to 975,000. This will satisfy the sale without having to initiate a callback with the counterparty.



## 2.0 Business Definition

### 2.1 Business Data Requirements

This section lists the business data elements necessary to provide a Re-Allocation Instruction. This section does not list all fields that will be contained in a message; it contains those field with specific values for re-allocations

Business Element	Comments
<b>DATA</b>	
Reallocation Identifier	This identifier is carried throughout the re-allocation messages to link the transactions
Deal Reference	Lender's loan transaction reference
Account	Custody and/or safekeeping account.
Receiving Agent	Custodian's DTC number
Delivering Agent	Custodian's DTC number
Quantity	Par value of the loan transaction to return to existing account and/or put out in a new account

### 2.2 Market Practice Rules

Need to further define the various situations according to the lending model utilized:

- Parent / child not utilized, but use the block functionality to link the trades.
- There is not partial settlement, all the trades will settle or fail as a group.
- If a leg of a re-allocation needs to be cancelled, all the associated trades of the re-allocation will need to be cancelled and the whole group re-instructed.
- Cancel instructions will reference the original reallocation identifier in the previous message reference field.
- A confirmation message will be sent for each leg of the re-allocation and the status reason code will differ for the leg that cannot settle versus the other leg, which is pending settlement.

#### Message Usage

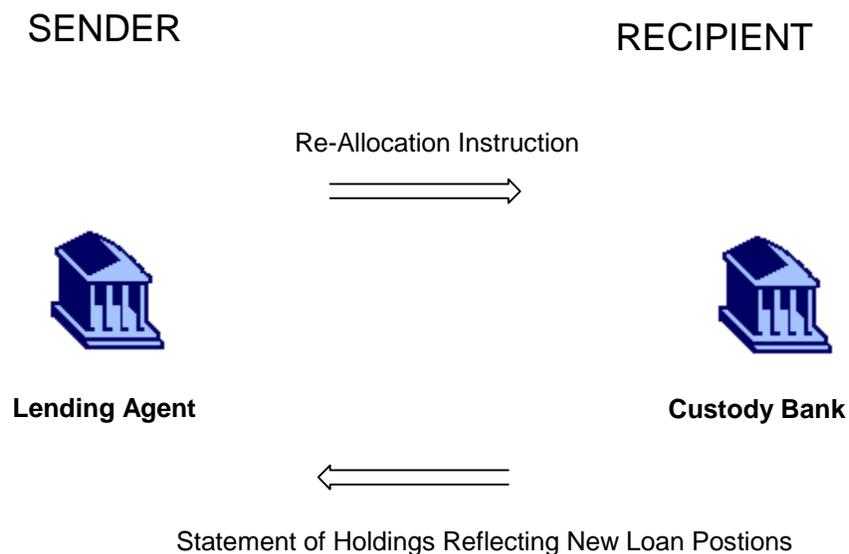
#### Other Open Questions:

## 3.0 Appendix

<This section should identify and describe a message / syntax that can be used to support communication flows described and the necessary market practices. One Appendix should be used for each type of syntax, for example one appendix for an ISO15022 message, and a separate one for an ISO20022 message. Each appendix should have the four sections noted below.>

### Syntax Type

#### 1 <Message Sequence Diagram >



#### 2 <15022 Message Usage Rules>

- The Re-allocation instructions will utilize the MT54x messages.
- 20C::POOL// is the reallocation identifier; an unique value linking all associated re-allocation messages.
- 20C::PREV// will be used to refer back to the original re-allocations POOL identifier.
- 20C::TRRF// is the deal reference used to identify the lender's transaction reference number (i.e. Loan number).
- For a re-allocation instructed with one custodian, the DEAG/REAG and BUYR/SELL fields contain the custodians DTC #. No delivery/receipt actually occurs with the counterparty and the use of the custodian's DTC prevents delivery from occurring.
- PSET is always CSD to keep it consistent with the party identification databases
- The message structure using the blocking structure with the exception that the 1st SETT value starts with 001, not 000.

Usage details pertaining to each lending model should be put here.

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### 3 <Message Structure and Requirements>

<This section should include a table/matrix to help display the data elements expected within the message, and as well and specific needs or requirements for each.>

Index	Message Item	Definition	Mult.	Syntax	Usage Rule / Comments
1.0	Message		[1..1]		
2.0	Identification		[1..1]		

#### 4 <Sample Message Format>

##### One to One Securities Lending Reallocation vs. Free Example (SR2007)

##### MT540 (Loan Return)

##### MT542 (Loan Open)

:16R:GENL
:20C::SEME//987655
:23G:NEWM
<b>:99B::SETT//001</b>
<b>:99B::TOSE//002</b>
:16R:LINK
<b>:20C::POOL//ABC</b>
:16S:LINK
:16R:LINK
<b>:20C::TRRF//loan12345</b>
:16S:LINK
:16S:GENL
:16R:TRADDET
:98A::SETT//20071105
:98A::TRAD//20071105
:35B:/US/459200101
:16S:TRADDET
:16R:FIAC
:36B::SETT//UNIT/100,
:97A::SAFE//ACC1
:16S:FIAC
:16R:SETDET
<b>:22F::SETR//SLRE</b>
:16R:SETPRTY
<b>:95P::PSET//DTCYUS33</b>
:16S:SETPRTY
:16R:SETPRTY
<b>:95R::DEAG/DTCYID/00000901</b>
:16S:SETPRTY
:16R:SETPRTY
<b>:95R::SELL/DTCYID/00000901</b>
:16S:SETPRTY
:16S:SETDET

:16R:GENL
:20C::SEME//987657
:23G:NEWM
<b>:99B::SETT//002</b>
<b>:99B::TOSE//002</b>
:16R:LINK
<b>:20C::POOL//ABC</b>
:16S:LINK
:16R:LINK
<b>:20C::TRRF//loan12345</b>
:16S:LINK
:16S:GENL
:16R:TRADDET
:98A::SETT//20071105
:98A::TRAD//20071105
:35B:/US/459200101
:16S:TRADDET
:16R:FIAC
:36B::SETT//UNIT/100,
:97A::SAFE//ACC2
:16S:FIAC
:16R:SETDET
<b>:22F::SETR//SLRE</b>
:16R:SETPRTY
<b>:95P::PSET//DTCYUS33</b>
:16S:SETPRTY
:16R:SETPRTY
<b>:95R::REAG/DTCYID/00000901</b>
:16S:SETPRTY
:16R:SETPRTY
<b>:95R::BUYR/DTCYID/00000901</b>
:16S:SETPRTY
:16S:SETDET



Many to Many Securities Lending Reallocation vs. Free Example (SR2007)

MT540 (Loan Return)	MT540 (Loan Return)	MT542 (Loan Open)	MT542 (Loan Open)
:16R:GENL	:16R:GENL	:16R:GENL	:16R:GENL
:20C::SEME//987654	:20C::SEME//987655	:20C::SEME//987657	:20C::SEME//987658
:23G:NEWM	:23G:NEWM	:23G:NEWM	:23G:NEWM
:99B::SETT//001	:99B::SETT//002	:99B::SETT//003	:99B::SETT//004
:99B::TOSE//004	:99B::TOSE//004	:99B::TOSE//004	:99B::TOSE//004
:16R:LINK	:16R:LINK	:16R:LINK	:16R:LINK
<b>:20C::POOL//ABC</b>	<b>:20C::POOL//ABC</b>	<b>:20C::POOL//ABC</b>	<b>:20C::POOL//ABC</b>
:16S:LINK	:16S:LINK	:16S:LINK	:16S:LINK
:16R:LINK	:16R:LINK	:16R:LINK	:16R:LINK
<b>:20C::TRRF//loan12345</b>	<b>:20C::TRRF//loan12345</b>	<b>:20C::TRRF//loan12345</b>	<b>:20C::TRRF//loan12345</b>
:16S:LINK	:16S:LINK	:16S:LINK	:16S:LINK
:16S:GENL	:16S:GENL	:16S:GENL	:16S:GENL
:16R:TRADDET	:16R:TRADDET	:16R:TRADDET	:16R:TRADDET
:98A::SETT//20071105	:98A::SETT//20071105	:98A::SETT//20071105	:98A::SETT//20071105
:98A::TRAD//20071105	:98A::TRAD//20071105	:98A::TRAD//20071105	:98A::TRAD//20071105
:35B:/US/459200101	:35B:/US/459200101	:35B:/US/459200101	:35B:/US/459200101
:16S:TRADDET	:16S:TRADDET	:16S:TRADDET	:16S:TRADDET
:16R:FIAC	:16R:FIAC	:16R:FIAC	:16R:FIAC
:36B::SETT//UNIT/30,	:36B::SETT//UNIT/70,	:36B::SETT//UNIT/40,	:36B::SETT//UNIT/60,
<b>:97A::SAFE//ACC1</b>	<b>:97A::SAFE//ACC2</b>	<b>:97A::SAFE//ACC3</b>	<b>:97A::SAFE//ACC4</b>
:16S:FIAC	:16S:FIAC	:16S:FIAC	:16S:FIAC
:16R:SETDET	:16R:SETDET	:16R:SETDET	:16R:SETDET
<b>:22F::SETR//SLRE</b>	<b>:22F::SETR//SLRE</b>	<b>:22F::SETR//SLRE</b>	<b>:22F::SETR//SLRE</b>
:16R:SETPRTY	:16R:SETPRTY	:16R:SETPRTY	:16R:SETPRTY
<b>:95P::PSET//DTCYUS33</b>	<b>:95P::PSET//DTCYUS33</b>	<b>:95P::PSET//DTCYUS33</b>	<b>:95P::PSET//DTCYUS33</b>
:16S:SETPRTY	:16S:SETPRTY	:16S:SETPRTY	:16S:SETPRTY
:16R:SETPRTY	:16R:SETPRTY	:16R:SETPRTY	:16R:SETPRTY
<b>:95R::DEAG/DTCYID/00000901</b>	<b>:95R::DEAG/DTCYID/00000901</b>	<b>:95R::REAG/DTCYID/00000901</b>	<b>:95R::REAG/DTCYID/00000901</b>
:16S:SETPRTY	:16S:SETPRTY	:16S:SETPRTY	:16S:SETPRTY
:16R:SETPRTY	:16R:SETPRTY	:16R:SETPRTY	:16R:SETPRTY
<b>:95R::SELL/DTCYID/00000901</b>	<b>:95R::SELL/DTCYID/00000901</b>	<b>:95R::BUYR/DTCYID/00000901</b>	<b>:95R::BUYR/DTCYID/00000901</b>
:16S:SETPRTY	:16S:SETPRTY	:16S:SETPRTY	:16S:SETPRTY
:16S:SETDET	:16S:SETDET	:16S:SETDET	:16S:SETDET