

# **THE INTERNATIONAL SECURITIES LENDING ASSOCIATION LIMITED**

## **RULES**

### **1. OBJECTIVES**

- i. To represent the common interests of institutions that are engaged in the lending or borrowing of securities, and other firms that provide services in support of the securities lending markets.
- ii. To assist in the orderly, efficient and competitive development of these markets and to establish agreed standards and guidelines for good working practices.
- iii. To provide a forum for the development and exchange of ideas and information.
- iv. To liaise with regulators and other agencies to help in the development of appropriate regulatory frameworks for the industry and a mutual understanding of related issues, while engaging in cooperative efforts with other organisations as appropriate.
- v. To seek to promote awareness of future challenges and opportunities for the securities lending industry.
- vi. To foster superior standards among its members, in respect of practices and management techniques employed in the securities lending industry.
- vii. To develop and maintain a legal agreement for use in the securities lending industry.

### **2. MEMBERSHIP**

- i. No maximum number; minimum ten.
- ii. Any institution that engages as principal or as agent in transactions for the lending or borrowing of securities may apply to the Board to become a full member of the Association. A full member shall have voting rights and may actively participate in all aspects of the association including but not restricted to sub-group meetings.
- iii. Any institution that is able to provide evidence satisfactory to the Board that it is involved in the provision of commercial services to full ISLA members in support of their securities lending or borrowing activities may apply to the Board to become an associate member of the Association. For this purpose, commercial services may include, but are not restricted to, the provision of legal services, information technology, brokerage and market data. An associated member shall have no voting rights and may attend the Board and its sub-groups as an observer by invitation of the relevant chairperson only.

- iv. The Board may agree to enter into reciprocal membership arrangements with other trade associations that have an interest in the securities lending market, where such arrangements are considered to be in the interests of members. Associations that enter into such arrangements are referred to as reciprocal members. The terms of any such reciprocal membership arrangement will be determined and agreed by the Chief Executive. A reciprocal member shall have no voting rights and may attend the Board and its sub-groups as an observer by invitation of the relevant chairperson only.
- v. The making of an application for membership of the Association shall constitute acceptance of the rules applicable to membership applications. The Board may delegate the processing of membership applications to the Chief Executive where applicants clearly fall within the criteria under clause 2(ii) or 2(iii) above. Unless otherwise stated in these rules: (a) any reference to a full member shall mean a member accepted under clause 2(ii), and any reference to an associate member shall mean a member accepted under clause 2(iii) above, (b) any reference to a member shall mean a full member or an associate member, as appropriate, and any reference to members or the membership shall mean both full members and associate members.
- vi. The making of an application for membership of the Association shall constitute acceptance of the rules applicable to membership applications. The Board may delegate the processing of membership applications to the Chief Executive where applicants clearly fall within the criteria under clause 2(ii) or 2(iii) above.
- vii. The Board is entitled to reject any application if:  
the applicant does not fall within the description in clause 2(ii) above (where applying to become a full member) or clause 2(iii) above (where applying to become an associate member); or (b) it is aware that at the time of the application the applicant is or at any time in the last 3 years has been insolvent, or in breach of any law or requirement of any regulator, stock exchange, clearing house or market association applicable to it; or in its reasonable opinion the acceptance of the applicant as a member of the Association is likely to bring the Association into disrepute or otherwise prejudice the objects of the Association.
- viii. Member firms must designate a representative and an alternative who will be permitted to act as the member firm's representative in that person's absence.
- ix. Membership is not transferable.
- x. Each representative of a full member has the power to appoint an alternate with the same voting rights.

### **3. SUBSCRIPTIONS**

- i. 1st January to 31<sup>st</sup> December is the subscription year which can be changed by simple majority at an Annual General Meeting (“AGM”), or at an Extraordinary General Meeting (“EGM”).
- ii. There will be a joining fee due from each new full member firm and associate member firm. The joining fee maybe waived at the Chief Executive’s discretion.

- iii. There will be an annual subscription due from each full member and associate member. Subscriptions fall due on 1<sup>st</sup> January each year.
- iv. The annual subscription and joining fee due from full members and associate members respectively will be determined by the Board. The Board may decide to determine a lower annual subscription fee for full members (beneficial owners) that are engaged in the lending of securities through an agent only.
- v. An institution joining during the year will pay a pro-rata amount equivalent to the remaining part of the subscription year, plus the full joining fee. Details of the annual subscription will be included on the membership application form.
- vi. To access the ISLA Netting Opinion services, an organization must be an ISLA member firm and relevant fees for the service must paid prior to access to the service being granted. There is no pro-rata amount equivalent for this service.

#### **4. RESIGNATION & REMOVAL FROM MEMBERSHIP, RIGHT OF APPEAL**

- i. The Board may terminate the membership of any member by written notice:
  - a) if the payment of the annual subscription is overdue for three months.
  - b) in the event of member firm insolvency, where such member firm is unable to pay its debts in accordance with the definition of insolvency contained in Section 123 of the Insolvency Act 1986 (or the equivalent definition in any subsequent UK legislation that replaces the 1986 Act), or it is the subject of a winding up petition presented by one of its creditors, or such analogous legislation or proceedings relevant to the legal jurisdiction of the member.
- ii. Where it is considered inappropriate for a member firm to remain in the Association, any other full member firm may bring an expulsion request to the AGM or EGM if it reasonably considers that the relevant member:
  - a) does not fall within the description in clause 2(ii) above (if a full member) or clause 2(iii) above (if an associate member); or
  - b) is in breach of any law or requirement of any regulator, stock exchange, clearing house or market association applicable to it; or
  - c) has (or any of its officers or employees has) by any act or omission acted in a manner likely to bring the Association into disrepute or otherwise prejudice the objects of the Association.

Voting is subject to AGM/EGM rules. An EGM can only be called as set out in clause 7(ii), and any expulsion will be decided on the basis of two thirds majority acceptance. Details of the case for expulsion must be circulated to the membership by the member firm proposing expulsion within a reasonable time before such meeting is held. The member firm facing expulsion shall be entitled to make representations at the AGM or EGM at which the expulsion is to be considered.

- iii. The Board is empowered to suspend a member firm in the intervening period between an expulsion request and an AGM or EGM, if deemed necessary.

- iv. Each member firm is entitled to resign from the Association at any time. Written notice must be received by the “Officers” of the Board or the Chief Executive.
- v. Member firms are liable on their pro-rata share of any financial or other obligations entered into prior to the date of their resignation from the Association.

## **5. COMPOSITION OF BOARD**

- i. There is an ISLA Board (“Board”) consisting of up to 12 elected Directors (see 5.v below) that are member firm representatives. The roles of Chairman, Deputy Chairman, Ex-Officio, and Treasurer are deemed “Officer” positions. The role of Secretary will be carried out by a member of ISLA staff approved by the Board. In addition, the Board may co-opt additional Directors provided that the total number of Directors does not exceed 15. Co-options will normally be made to achieve an appropriate geographical or sectoral representation or area of expertise. The period of co-option may be set by the Board, provided that all co-opted Directors will stand down at the time of two yearly elections. The new Board will then be responsible for appointing co-options if desired.
- ii. In the event of a deadlock occurring on the Board, the Chairman will have a casting vote.
- iii. The Officers are empowered to make administrative decisions and to delegate decision-making authority to the Chief Executive.
- iv. The Board must fairly represent the membership within the industry and is empowered to make decisions other than those requiring approval at an EGM or AGM.
- v. All Director and Officer positions are subject to election every two years, a year being defined as the period between AGMs. Only representatives of full member firms may nominate themselves for election to the Officer positions and /or the other Director positions, or be considered for co-option by the Board under 5(i). Current directors and officers may stand for re-election subject to clause 5 (vi). All full member firm representatives are eligible to vote in elections. In the event of a tie in an election, the successful candidate will be selected by the toss of a coin or drawing lots. The Chief Executive will form an election committee comprising persons other than member representatives to oversee and administrate the election process.
- vi. The role of Chairman is limited to a maximum term of 2 years, subject to Rule 5 ix below. A representative may re-stand for the position of Chairman provided that (a) there has been a gap of 2 or more years from the time they last occupied the position and the time they wish to re-stand, or (b) in any case where no other nominations are received. The role of Ex-Officio is a non-elected position and will be occupied by the previous outgoing Chairman. If, for any reason, the Ex-Officio role is not filled by the outgoing Chairman, an additional nomination for Director will be sought to maintain the Board number at 12 persons.
- vii. The Deputy Chairman will automatically become Chairman in the event of the Chairman’s resignation, absence, or removal, and a replacement Deputy Chairman will be appointed by the Board from the existing Directors. Similarly, in the event of the Deputy Chairman’s and /or Treasurer’s resignation or removal, the Board may appoint replacement(s) from the existing Directors. Otherwise the positions will be subject to the normal election procedures at the AGM.

- viii. No fees are payable to Directors or any other member firm representative.
- ix. In the event of a representative of a full member firm being elected or appointed Chairman before the year end due to the resignation or removal of the previous Chairman, this period will not count towards the 2-year rule outlined in clause 5 (vi).
- x. The Officers are empowered to appoint Directors if a vacant position on the Board has not been filled through the normal election process.
- xi. In the event of the resignation or removal of an Officer(s) or Director(s), the Board is not obliged to call a bye election to fill the vacant position(s) so long as the Board consists of at least nine elected Directors (including the Ex-Officio).

## **6. EXPULSION OF DIRECTORS**

- i. There must be a two thirds majority of the Board in order to expel a Director, such decision being subject to review at the AGM or EGM.
- ii. In the event that an expelled Director so wishes, notice will be circulated by the Secretary or Chief Executive to all members of the Association prior to the AGM being held, with a proposal for an EGM to recast the vote. If more than one half of the full membership are in favour of an EGM, then one may be called to take place not more than 4 weeks after the details are circulated. Full members must respond within 1 week of receipt of notification. If the expelled Director achieves a greater than one half majority of those attending the EGM, then they are eligible to become a Director once more, i.e. there is a right of appeal. All appeal work must be undertaken by the expelled Director under the guidance of the Officers.
- iii. If a member firm ceases to be a full member of the Association then their representative will have been deemed to have resigned from the Board.
- iv. If a Director resigns from a member firm, joins another member firm as their representative and wishes to remain on the Board, the Board may decide to allow them to do so or vote to expel them from the Board. If a Director resigns from a member firm and does not join another member firm, he/she will be deemed to have resigned from the Board.

## **7. GENERAL MEETINGS**

- i. An AGM will take place each year.
- ii. Apart from the calling of an EGM under clause 6 (ii), an EGM may be called by any full member firm representative, via the Secretary, to be agreed by the Officers.
- iii. In order to be quorate a minimum of one third of the full membership must be present at an EGM or AGM, or have registered a proxy vote.

- iv. In all AGMs and EGMs voting will be by secret ballot; 1 vote per full member firm. A two thirds majority of votes cast is required for a change to the Rules. The Board may decide to allow proxy voting.
- v. In the event that more than three representatives from different divisions of the same organization, but representing the same ultimate parent, become full members, voting rights will be limited to a maximum of three per parent company.

## **8. PROCEEDINGS OF THE BOARD**

- i. There will be a minimum of 4 Board meetings per year which will be prearranged. Directors will be given at least one week's notice of meetings by the Secretary or Chief Executive.
- ii. Board meeting agenda items should be communicated to the Chief Executive no later than the close of the 4<sup>th</sup> business day prior to the meeting; Board members should receive an agenda no later than 2 days prior to any meeting.
- iii. Minutes of any Board meetings should be made available to all full members within one month of the meeting taking place.
- iv. If a Board member cannot attend a Board meeting, notice should be given to the Chief Executive or Secretary.
- v. A quorum exists where there are 5 Directors present, provided that one of them is an Officer.
- vi. Any commitment to a third party either financial or otherwise must have a minimum of two-thirds majority agreement of the Board. Where there is no commitment to a third party and where the decisions generally relate to the management of the Association's affairs, decisions will be made by simple majority of the Board or may be delegated to the Chief Executive. No commitment can be made unless there is a quorum.
- vii. The Board appoints and determines the remuneration of the Chief Executive.
- viii. Sub-committees may be appointed by the Chief Executive. Any sub-committee must report back to the Chief Executive on its work. No full member firm representative will be compelled to act on a sub-committee.

## **9. CHIEF EXECUTIVE AND CHIEF EXECUTIVE'S OFFICE**

- i. The Chief Executive is responsible for implementing the objectives agreed by the Board in order to achieve the aims of the Association within the budget agreed by the Board.
- ii. The Chief Executive is also responsible for the day-to-day administration of the Association, including support for the Board and its sub-committees.
- iii. The Chief Executive attends Board meetings as a non-voting participant. The Board will meet at least once annually without the Chief Executive to review, inter alia, his/her performance and remuneration.

- iv. The Chief Executive may appoint other permanent ISLA staff or contract staff (the ‘Chief Executive’s Office’) and determine their remuneration within the budget and to meet the objectives agreed by the Board.
- v. The Chief Executive will bring a proposal to the Board each year setting out proposed objectives of the Association for that year and a proposed budget. The Board will then agree objectives and a budget.
- vi. The Chief Executive will report to the Board regularly, on a timetable agreed by the Board, on progress against the agreed objectives and budget.

## **10. FINANCE**

- i. The Officers have signing authority and signing authority may also be delegated to the Chief Executive and other ISLA staff. A schedule of delegated signing authorities and financial controls will be maintained by the Chief Executive’s Office. .
- ii. Reasonable sundry expenses may be recovered by the Officers, provided the expenditure is agreed in advance by at least 2 other Officers and/or the Chief Executive. All other members are liable for costs incurred on the Association’s business, unless agreed in advance by the Board. All such expenditure shall be reported to the Board by the Treasurer or Chief Executive.
- iii. The Association has no powers to borrow.
- iv. The Treasurer and Chief Executive will make the Association’s bank account statements available upon request to the other Directors. No commitment can be undertaken which will exceed cash resources (after deduction of all outstanding liabilities).
- v. Any Director incurring charges without prior agreement of the Officers may be liable on those charges.
- vi. Assets other than cash may be held by the Association, so long as these have been approved by the Board.
- vii. The Treasurer is responsible for ensuring that accurate financial records are maintained; that financial statements are prepared by the accountants appointed at the previous AGM (or EGM); and that those financial statements are distributed among the full membership within 6 months of the year end. The Treasurer may delegate book-keeping and the preparation of the accounts to the Chief Executive and other ISLA staff.

## **11. CONFIDENTIALITY**

- i. Any advice or recommendations from or decisions made by the Officers or Board under these Rules shall be confidential to the member or members to whom it is given or made unless disclosed by either the Officers or Board to a third party.

## **12. COMPETITION**

- i. Notwithstanding any other provisions of these Rules, no restriction contained in these Rules, or accepted by the members in any agreement made under it, by virtue of which these Rules or any agreement made under it is subject to registration under the Restrictive Trade Practices Act 1976 (“the Act”) shall take effect until the day after the particulars have been furnished to the Office of Fair Trading pursuant to Section 24 of the Act. For the avoidance of doubt, express or implied specific recommendations made pursuant to these Rules which are subject to registration under this Act shall not take effect until the particulars have been furnished to the Office of Fair Trading pursuant to Section 24 of the Act.
- ii. No member or members to whom any advice is given, or who are informed of recommendations or decisions made by either the Officers or Board, pursuant to the provisions of these Rules shall be under any obligation to act upon such advice, recommendation or decision.

## **13. MEMORANDUM AND ARTICLES OF ASSOCIATION**

- i. These Rules are subject to the provisions of the Memorandum and Articles of Association of The International Securities Lending Association Limited.