Sebi plans revival of securities lending and borrowing scheme

Sebi plans to include more securities, allow mutual funds to sell short and depositories to lend to rejuvenate the Securities Lending and Borrowing Scheme, or SLB mechanism

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Sebi is also said to have communicated its intent to relook at the framework for derivatives industry. Photo: Aniruddha Chowdhury/Mint

Mumbai: The Securities and Exchange Board of India (Sebi) is looking to rejuvenate the Securities Lending and Borrowing Scheme (SLB) mechanism by including more securities, allowing mutual funds to sell short and depositories to lend, said two people with direct knowledge of the matter including an official with the capital markets regulator.

SLB allows investors to borrow shares from other investors against collateral. Short selling means selling of a stock that the seller does not own at the time of trade.

“SLB has been around for nine years but the market has not picked up. The industry has made some suggestions. Based on that we will introduce a modified SLB framework,” said the Sebi official cited earlier, declining to be named.

The daily average volume in the SLB segment of NSE in the month of August was just 0.6 million shares, compared with an average cash market volume of more than 1.3 billion shares.

Sebi has also communicated its intent to relook at the framework for derivatives industry at a closed-door meet on Thursday, said the second person.

A Sebi spokesperson did not respond to an email seeking comment.

One of the key proposals is to increase the number of eligible securities under SLB scheme, said the second person on condition of anonymity.

Under current norms, SLB is allowed for only the most liquid securities, those with Rs100 crore average monthly trading turnover and restricted to stocks that are in futures and options (F&O) segment.

“The current programme can be developed by increasing the list of securities currently available on SLB segment and expanding it to include additional securities other than those available on F&O segment. This would help for market making in government securities and corporate bonds,” said Richie Sancheti, head, investment funds, at law firm Nishith Desai Associates.

The other proposal involves allowing share depositories to lend after investors sign off on it. The current system allows for direct lending by clients. “The idea is to bring in more institutional participation, and depositories have more lending power,” said the second person. “Institutions such as mutual funds may also be allowed to short sell stocks to bring depth to the market,” this person said.

“SLB suffers from lack of liquidity. The more the participants, the more liquid the market will become. So in that sense allowing more securities, lenders and participants to short it will deepen the market. Currently, mutual funds are only allowed to lend under SLB and mostly use this in a limited way for hedging. As long as we are allowed to continue to hedge under the new proposed norms we are happy,” said a mutual fund manager, declining to be named as he is not authorized to speak to media.

The SLB market was introduced by the National Securities Clearing Corp. Ltd in April 2008. The system was automated involving a screen based trading platform with online matching of trades. This was a departure from the worldwide practice of an over the counter (OTC) mechanism for borrowing and lending securities.

Some participants said this was also one of the many reasons why the market did not take off as foreign investors were used to OTC—a suggestion which Sebi has dismissed.

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