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Basel III - The Securities Financing Market Toolkit

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This paper serves as the 2026 update to the 2023 ISLA report, Prudential Banking Rules: Basel III Endgame & the Buy Side. It provides a comprehensive regulatory review, historical background, and current state of play regarding the evolution of global bank capital requirements. As the global implementation of Basel III reaches a critical inflection point, this paper aims to equip ISLA members with a strategic toolkit, spanning central clearing, bankruptcy-remote pledge structures credit rating agency alternatives, and robust cross-product master netting frameworks to actively navigate shifting jurisdictional alignments and safeguard market stability.

Background to Basell III

The global rollout of Basel III has arrived at a crossroads. While the period immediately following the 2008 financial crisis was defined by a unified international commitment to strict compliance and a synchronised implementation of prudential standards to restore market trust, the landscape in 2026 is markedly different. We have transitioned into an era of strategic recalibration, where the pursuit of global jurisdictional harmony is increasingly balanced against, and at times superseded by, the requirements of national economic resilience and geopolitical competition.

This shift toward jurisdictional divergence is driven by compounding structural pressures. The emergence of regionalised economic blocs and ongoing macroeconomic instability have prompted regulatory authorities to move toward strategic financial autonomy. Rather than viewing bank capital standards purely as a technical prudential requirement, policymakers in the UK, EU, and US, for example, are increasingly treating it as a strategic lever to ensure their domestic financial systems remain capable of absorbing shocks while supporting national growth during periods of heightened economic and geopolitical volatility.

Consequently, the regulatory status quo in 2026 is defined by jurisdictional pragmatism. For the Securities Financing Transaction (SFT) market, this environment necessitates a renewed focus on the comprehensive solutions suite available within current legal and operational infrastructures to maintain liquidity and systemic risk boundaries.

To provide context, it is useful to recall the origins of the Basel III framework, developed in direct response to the global financial crisis of 2007-2008, the framework was commissioned by the Bank of International Settlements (BIS), specifically through the Basel Committee on Banking Supervision (BCBS). The framework was anchored by seven core objectives:

1. **Improving the Banking Sector's Ability to Absorb Shocks:** Enhancing the fundamental resilience of banks during periods of severe macroeconomic and financial stress.
2. **Increasing Transparency:** Ensuring that regulated banks maintain comprehensive disclosures regarding their underlying risk exposures.
3. **Strengthening Risk Management:** Elevating the risk management and supervisory processes, focusing on credit, market, and operational risks.
4. **Enhancing Capital Requirements:** Implementing stricter, loss absorbing capital thresholds, including a significantly higher minimum Common Equity Tier 1 (CET1) capital ratio.
5. **Reducing Leverage:** Introducing measures to limit the build-up of leverage in the banking system, including a leverage ratio requirement.
6. **Addressing Liquidity Risk:** Establishing liquidity standards to ensure that banks can survive periods of financial stress, focusing on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).
7. **Mitigating Systemic Risks:** Ensuring that globally systemic important banks (GSIBs) are better capitalised to withstand localised shocks without triggering broader contagion across the wider financial system.

Ultimately, these core objectives were designed to foster a structurally resilient banking sector and materially reduce the likelihood of future systemic crises.

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Why this Matters to Securities Lending Market Participants

Securities Financing Transactions (SFTs), and specifically Securities Borrowing and Lending (SBL), serve as the foundational plumbing of the global financial system. SBL is a fundamental mechanism for mobilising securities to facilitate the efficient functioning, liquidity, and resilience of financial markets while providing essential opportunities for long-term investors to generate additional income.

In the context of prudential frameworks like Basel III, securities lending operates as a vital tool for systemic risk management, underscored by several key market functions:

- SBL supports the provision of secondary market liquidity and supports the market making activities of financial institutions, giving them ready access to securities that they may not be holding.
- SBL facilitates settlement obligations, increasing operational efficiency. Securities lending is often used as a targeted tool to alleviate settlement failure.
- SBL is used to source collateral for regulatory margin requirements.
- SBL allows long-term investors, such as pension savers and retail investors, to generate additional income on their portfolios, boosting overall returns for citizens. It also allows investors to raise finance against long term investments.
- SBL enables short selling activity, which improves price discovery for institutional investors and improves market efficiency.

Most importantly, in the context of this paper, securities lending plays a decisive role in helping banks meet their prudential obligations under the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The LCR requires banks to maintain a stock of High-Quality Liquid Assets (HQLA) sufficient to survive a 30-day stressed liquidity scenario. Securities lending is the primary engine for collateral transformation, allowing banks to lend lower-quality assets in exchange for HQLA. This ensures that banks can meet their 30-day stressed outflow requirements without liquidating large portions of their investment portfolios, thereby reducing fire-sale risks and enhancing systemic stability.

The NSFR ensures that a bank has a reliable profile of stable funding relative to its assets and off-balance sheet activities over a one-year horizon. Securities lending facilitates the term-funding of assets, allowing banks to borrow securities over longer tenors to match their long-term funding needs. This prevents the buildup of excessive maturity mismatches, that contributed to the 2008 financial crisis for example.

By providing a relief valve for liquidity and collateral, securities lending helps manage and reduce systemic risk across the banking sector. It prevents liquidity silos from forming by ensuring that collateral can flow freely between cash and derivatives markets, particularly during periods of elevated volatility when balance sheet capacity is constrained.

In summary, the capacity of banks to intermediate in the securities financing market is inextricably linked to their ability to remain compliant with capital and liquidity standards. **Any regulatory increase in capital costs that curtails this activity, would not only impair market efficiency but would directly undermine the efficacy of the prudential ratios designed to safeguard the financial system.**

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Core Regulatory Challenge – Unrated Funds:

Basel III rules were designed to reduce the variability of risk weighted assets (RWA) between banks via the implementation of an aggregate 'output floor', where a bank's aggregate RWA calculated with the benefit of internal models cannot be lower than 72.5% of the RWA as calculated under the standardised framework.

Buy-side funds interact with regulated banking organisations for several critical services including areas such as securities finance, foreign exchange, and derivatives. When a fund transacts with a bank, the bank is required by the Basel framework to assess the creditworthiness of the fund which generates an appropriate risk weight to calculate regulatory capital for credit risk. To date, much of the activity between the buy-side and banks has been carried out by larger Internal Ratings Based (IRB) banks, who have been utilising their internal models to assess the creditworthiness of different types of funds. Due to the low levels of risk and limited default experience, the risk weights of high-quality funds typically ranged between 5% - 15% on average.

Under the Basel standardised approach however, unrated corporates and funds are assigned a flat 100% risk weight. As a significant portion of funds are unrated, the risk weights for these counterparties to SFT transactions will immediately increase.

If risk weights for investment grade funds will now jump from around 12.5% to 65%, this means that the current implied cost of equity capital to support borrowing will jump from around 4 basis points (bps) for a typical trade with a fund to 15 bps post-implementation of the Basel III Endgame. The net result will be close to a fourfold increase. Such a significant jump in the cost of capital is unlikely to be completely absorbed by the banks. Hence some of the cost will be passed on to the funds themselves which may have a detrimental effect on financial markets. This includes; a reduction in securities lending volumes, the drying up of market liquidity, an increase in the cost of hedging and foreign exchange activity, as well as a fall in economic activity. Hence the industry needs to think how best to mitigate this rise in cost of regulatory capital.

Regulators have responded to this challenge by offering regional variations:

The EU for example, proposed transitional arrangements where all investment grade funds, as determined by the internal models will be allocated a 65% risk weight. This is however temporary and forms part of a phase in arrangement that increases the output floor to 72.5% over time.

In contrast, the UK and Canada provide banks with the option of using a risk sensitive approach, where investment grade entities are allocated 65% RWA, with non-investment grade entities allocated 135% (UK) and 150% (Canada) respectively. Or alternatively, allocating all unrated entities a 100% risk weight depending on which approach is adopted.

Additionally in the US, as part of the March 2026 re-proposal, which introduced an Expanded Risk Based Approach, the proposed rules permit US Banks to allocate a 65% risk weight, providing the bank's assessments validate the entity as investment grade. To meet this requirement, US banks will have to pass strict criteria to validate their models and outputs including the use of timely, high-quality data for modelling and ongoing credit risk assessments

By creating a more level playing field for equalising standardised investment-grade fund risk weights at 65% across major jurisdictions, these adjustments remove historical competitive disparities, fostering a more balanced international landscape as banking organisations transition toward capital optimisation under the output floor.

The Global Implementation Status Report

The implementation timeline for Basel III and the Fundamental Review of the Trading Book (FRTB) across key jurisdictions such as the US, UK and the EU represent several moving parts, driven directly by the competing jurisdictions' desire to safeguard a level playing field for their national banks.

The table below captures the strategic schedules and re-aligned timelines across core markets:

Jurisdiction	Status of Basel III & Core Implementation Date	Market Risk (FRTB) Implementation Date	Relevant Links
United States	Re-Proposal issued in March 2026. Anticipated effective date – January 1, 2028	Postponed to January 1, 2028	Notices of Proposed Rulemaking
European Union	Capital Requirements Regulation 3 - live as of January 2025: Actively undergoing a Banking Competitiveness Review as of February 2026	Postponed to January 1, 2027. New Delegated Act in June 2026 with targeted operational relief for a duration of 3 years until 2029	EU Banking Competitiveness Package Targeted Consultation
United Kingdom	Phased Implementation from January 1, 2027	Postponed to January 1, 2028	UK PRA Policy Statement PS1/26 confirming structural implementation dates

The Window of Opportunity for Advocacy

The publication of this paper is timed to coincide directly with the June 18th conclusion of the public comment period for the US re-proposed Basel III Endgame framework. Following more than a decade of extensive consultations, legislative proposals, industry advocacy, and widespread public debate, the international financial community is rapidly approaching the final phase of this regulatory implementation lifecycle.

Once the U.S. regulatory authorities evaluate the formal stakeholder submissions and finalise their text, peer jurisdictions will inevitably review their own local versions of Basel regulation. Crucially, rather than driving further fragmentation, this ongoing process indicates that global authorities are actively monitoring international developments to ensure their local frameworks remain dynamically aligned, explicitly aiming to prevent competitive disparities and safeguard a level playing field for their domestic institutions.

Consequently, a vital window of opportunity for strategic advocacy remains open. While market participants must maintain a realistic outlook regarding wholesale structural changes at this advanced stage, targeted industry engagement is highly valuable for refining technical rules and implementation nuances to ensure cross-border consistency.

The re-proposed U.S. Endgame framework has occasionally been interpreted as a significant concession that places US domestic banking organisations at a distinct competitive advantage relative to their international peers. From a strict prudential perspective, this interpretation is not entirely accurate. While the latest modifications are demonstrably more risk-sensitive than the initial July 2023 draft, the baseline U.S. capital framework remains highly conservative due to robust regulatory overhauls enacted in the wake of the global financial crisis.

It remains a reality of modern prudential policy that, while implementation timelines and underlying technical calculations may temporarily diverge across markets, the overarching objective for global regulatory alignment is still a priority as jurisdictions adjust their rules to maintain a level playing field. As these capital requirements, transitional periods, and commencement dates solidify over the coming months, individual organisations and the broader market will inevitably pivot their focus toward measuring the exact impact on their operations and adapting to the new regime.

Crucially, the ramifications of these revised standards extend far beyond individual banking institutions. They represent a pan-market structural challenge that will influence multiple transaction types for both the buy-side and sell-side communities across the wider financial ecosystem, well beyond traditional securities financing infrastructure.

The high profile of this long-standing Basel discussion, which has reached political and public debating arenas well outside the world of pure finance, has fundamentally raised the profile of regulatory capital and risk-weighted asset (RWA) metrics across all financial organisations.

What was once an esoteric and highly specialist subject concerning scarce resources and output floors, has broadened into a widespread, top-of-house recognition of the importance of capital optimisation. Banks and their subsidiaries are now intensely focused on deploying strategies to release trapped capital.

The Toolkit for Securities Finance

Given the inherent complexity of the Basel III framework, its ongoing jurisdictional divergence, and the varying business profiles of global banks, there is no single "silver bullet" to eliminate the risk-weighted asset inflation facing the market. However, a suite of structural, legal, and credit risk mitigation tools can positively alter the capital trajectory for banks, their buy-side counterparty networks, and broader secondary market liquidity.

Below, this paper examines four distinct tools currently available to the industry. While each mechanism possesses unique strengths, the current stage of the global prudential rollout makes it incumbent upon all firms to thoroughly explore how these solutions can be integrated to safeguard their market position and mitigate impending capital pressures. It is also critical to note that while this report focuses on their application within the securities finance industry, models such as Central Counterparty Clearing (CCP) and Credit Rating Agency (CRA) solutions maintain a vital, broader applicability across the financial market.

1. Central Clearing Counterparty (CCP)
2. Credit Rating Agency (CRA)
3. Pledge (Security Interest over Collateral)
4. Netting & Other Legal Constructs
5. Additional Tools

1. Central Clearing Counterparty (CCP)

Central Clearing Counterparties (CCPs) such as the Options Clearing Corporation (OCC), the Cboe Clear Europe N.V. (CBOE), and the Depository Trust & Clearing Corporation (DTCC) via its subsidiaries, the National Securities Clearing Corporation (NSCC) and the Fixed Income Clearing Corporation (FICC) play an increasingly structural role in alleviating Basel III balance sheet pressures. While the repo market has long utilised CCP's, securities lending has historically relied on bilateral and agent-lender relationships.

Cboe Clear Europe, in November 2024 launched a first-of-its-kind service, making it currently the only pan-European CCP to offer live central counterparty clearing, matching, settlement, and post-trade lifecycle management for European Securities Financing Transactions in 21,000 unique cash equities and ETFs across 20 European (I)CSDs. A contingent of ISLA members have already successfully integrated this infrastructure into their daily operational workflows to manage counterparty credit risk and benefit from operational efficiencies. Borrowers, Principal Lenders and Beneficial Owners like UCITS, and Pension Funds through their Agent Lenders are actively trading with Cboe Clear, who manages thousands of SFT contracts on a daily basis, with outstanding loan values close to EUR 10bn.

Under the standardised approach for credit risk, unrated buy-side counterparties attract a default risk weight of 100% as described above, causing an increase in capital costs to banks that engage in SFTs with unrated entities. Interfacing with a voluntary central clearing model fundamentally alters this dynamic by removing direct exposure to the fund and effectively substituting a fund's bilateral credit risk profile with the high-grade credit quality of the clearing house.

Core Advantages

Substantial RWA Reduction: Transactions cleared through a qualifying CCP (QCCP) benefit from reduced risk weighting, typically falling to a highly sensitive 2%.

Enhanced Netting Efficiencies: Whether adopting a legal novation model or a direct CCP appointment approach, the CCP becomes the single legal counterparty to all matched trades. This allows participating institutions to multilaterally net their open exposures and associated margin requirements across a diverse pool of market participants, significantly compressing gross exposures and reducing overall balance sheet consumption..

Elimination of Credit Line Constraints: The CCP effectively replaces counterparty risk, enabling borrowing entities to scale their strategic lending activities without being structurally constrained by finite, counterparty-specific credit lines. This optimises liquidity sourcing and allows for greater volume scalability.

Optimised Sourcing for Lenders: Borrowers operate at a structurally lower capital cost within a cleared ecosystem, so they are inherently better positioned to pass along these capital savings to lenders. This economic shift translates into increased yields and more competitive lending rates for beneficial owners.

Bilateral Margin Exemptions for Tailored Licenses: Under some CCP models, qualifying participants can pledge securities as collateral without creating a material risk position for the CCP. Consequently, these institutions may face no obligation to pay operational margin nor contribute to the CCP's mutualised default fund, entirely removing an otherwise burdensome capital layer.

Cross-Product Collateral Mobilisation: Central clearing infrastructure can provide a standardised framework for the automated valuation, daily mark-to-market, and optimisation of eligible collateral baskets across both fixed income and equities, thus enhancing collateral mobility, by reducing the levels of idle, liquid buffers held on balance sheets.

Core Advantages

Elimination of Agent Lender Disclosure (ALD) Friction: In the traditional bilateral and agent-lender market, borrowers face heavy operational burdens to approve individual underlying funds under ALD requirements. Central clearing, depending on the model being utilised, may simplify this process for borrowers, where they face the CCP as a single principal counterparty, the QCCP, thereby removing this data aggregation and approval bottleneck. Note that this may be an advantage for direct CCP models, as opposed to novation models, however borrowers would need to conduct their own analysis to ascertain this, based on their internal legal and credit assessment of the relevant cleared SFT framework.

Considerations

Rigorous Institutional Access Criteria: To participate in central clearing, buy-side entities must navigate stringent onboarding and membership frameworks, which often impose demanding financial and legal baseline requirements.

Capital and Fee Absorbency: While gross capital savings are substantial, firms must be structurally equipped to post initial margin requirements and absorb ongoing clearing house transaction fees.

Geographic and Asset Fragmentation: The global CCP landscape remains highly fragmented across different jurisdictions and specific asset classes, occasionally forcing large, cross-border market participants to manage and fund multiple clearinghouse relationships simultaneously. Furthermore, the CCP model may not be acceptable to all beneficial owners, as specific CCP collateral structures remain subject to independent legal assessment by individual boards and managers. Market participants are also aware that certain CCPs have actively approached national and regional regulators seeking formal approval of their clearing models, though clear regulatory guidance and cross-border clarity have not yet been fully achieved.

Despite some operational, cost and structural adoption hurdles, central clearing is generally proving to be a resilient, dependable mechanism, continuing to capture significant transaction volumes and build deep liquidity pools across global markets.

2. Credit Rating Agency (CRA)

A fundamental infrastructural blind spot in the modern global capital markets is that more than 99% of the buy-side funds providing vital short-side liquidity, including sovereign wealth funds, pension funds, insurance funds, and large mutual funds, are unrated by external credit rating agencies. Historically, funds have had no need nor incentive to solicit a credit rating because they rarely issue public debt - which is the primary commercial use case for the traditional "issuer-pays" CRA business model. Under the Basel III framework, however, this lack of a CRA rating can be an impediment when most of the supply in the securities lending market comes from unrated funds.

In jurisdictions using the External Credit Risk Assessment (ECRA) approach (such as the EU, UK, Switzerland, Australia, Japan and Canada), banks can use external credit rating opinions to calculate capital requirements. If an external rating is present, creditworthy, high-grade investment-quality funds can qualify for a preferential 20% risk weight. Without an external rating, they default to 100%. These risk weights will apply to standardised banks. Banks with an Internal Risk-Based (IRB) approach will benefit from the application of an output floor.

For US banks, the regulators have made it clear that they will need to validate their internal credit model views on the investment grade (IG) of their buy-side counterparts. The availability of fund level credit ratings from a CRA will provide a source of IG validation and support a 35% risk weight benefit improvement.

This infrastructural gap however, is being addressed by the adoption of new CRA business models and a growing recognition from funds and asset managers of the benefits of a fund soliciting a rating. Having a credit rating ensures that a fund has a competitive position as a counterpart for banks in securities finance and across the capital markets.

Basel regulations globally have made it clear that CRA or External Credit Assessment Institutions (ECAIs) can be used to positively impact regulatory capital calculations.

Core Advantages

Regulatory Validation in the US: While the US Standardised Credit Risk Assessment (SCRA) does not permit the use of external ratings for risk-weighting, the March 2026 proposed rules require US banks to validate their internal credit model views to justify a 65% corporate investment-grade risk weight. US regulators have explicitly noted that benchmarking internal evaluations against external CRA ratings enhances system consistency and validates model outputs.

Streamlined Client Onboarding: Ingestion of audited CRA rating data provides institutional banks with the high-quality, standardised data required to satisfy rigorous credit risk assessments and internal model calibrations. This alleviates some of the structural data demands associated with onboarding and ongoing due diligence.

A Universal Passport for Capital Markets: Unlike product-specific alternatives, a formal fund credit rating serves as a multi-jurisdictional, cross-product "passport". It safeguards a fund's competitive positioning across securities finance, foreign exchange, derivatives trading, and hedging activity alike.

Considerations

The SCRA Constraint: The US relies on the Standardised Credit Risk Assessment approach (SCRA), meaning the highest quality investment grade fund ratings cannot unlock a 20% risk weight, as it would in other jurisdictions.

Consistent Application: A bank cannot selectively apply an external rating to a fund just where it yields a lower risk weight. Under rules like UK's PRA Policy Statement PS9/24, if a bank nominates a specific CRA for capital purposes, it must use that agency's ratings consistently across its entire risk management framework. In some jurisdictions, if a fund obtains ratings from multiple agencies to ensure broad market coverage, regulations dictate how those ratings map. If two nominated ratings are available, the bank must assign the higher (more punitive) risk weight. This prevents firms from "shopping around" for the lowest possible capital assessment.

Ultimately, while navigating the cross-jurisdictional rules requires operational diligence, securing an external rating could transition from an exercise in capital optimisation to an absolute commercial necessity for funds wishing to preserve their status as a preferred counterparty.

3. Pledge (Security Interest over Collateral)

In a traditional securities borrowing or lending transaction executed via a title-transfer arrangement, the legal title and beneficial ownership of the underlying collateral is transferred from collateral giver to collateral receiver. Typically, the lender also requires the borrower to transfer a haircut to mitigate the lender's counterparty credit risk. This results in a counterparty credit exposure for the collateral provider.

As part of its commitment to support the use of global master agreements for the securities lending industry, ISLA developed the GMSLA Security Interest over Collateral 2018 documentation suite, commonly referred to, as the ISLA Pledge GMSLA. Under ISLA's Pledge 2018, a banking organisation borrows securities but, rather than transferring title of collateral, it pledges collateral to the lender in a strictly bankruptcy-remote manner, via a triparty custodian account.

1. The securities lender is expressly prohibited from rehypothecating or utilising the collateral.
2. The collateral is held in a segregated account insulated from the insolvency of either of the secured parties (the borrower and the custodian).

ISLA members utilise the ISLA Pledge GMSLA, alongside the various supporting security agreements issued by tri-party agents, namely Tri-party Control Agreements (TACAs) including with BNY, Clearstream, Euroclear and JP Morgan. ISLA also provides opinions to support the Pledge documentation suite. The opinions obtained cover the bankruptcy remoteness of the collateral manager, and additional FCAR opinions confirm that the arrangement is considered a Financial Collateral Arrangement in the relevant jurisdiction. These opinions give banking organisations the legal certainty required to recognise the risk-management benefits of standard securities lending transactions within their regulatory capital calculations.

Core Advantages

This structure alters the fundamental regulatory capital outcome for some borrowers, which is likely to affect demand for securities lending.

Some borrowers can recognise capital relief: Borrowers subject to prudential regulations in the UK, EU and Switzerland are typically able to view the arrangement as not giving rise to exposure to the lender or custodian as a result of the legal opinions supporting the bankruptcy-remote nature of the arrangement. As a result, lenders can expect utilisation of their assets to be favoured by borrowers. As borrowers get 'smarter' in their sourcing of securities and as lenders respond by adopting the ISLA Pledge GMSLA, the demand for sourcing securities is likely to shift to the most capital efficient sources.

Considerations

The US Constraint: The bankruptcy-remote pledged collateral model is not currently recognised as a lower capital model by regulators in the United States. Under Section .37(b) of the re-proposed US Standardised Approach, variable exposure at default is defined broadly and therefore it requires US banks to capitalise non-rehypothecatable pledged collateral as a traditional, unsecured loan, creating a significant competitive disadvantage.

Regulatory Fund Restrictions: The pledge collateral model is not a universally acceptable by all lenders. Whilst it is highly attractive for some market participants, it is dependent on lender legal and risk assessment and is currently not permitted for certain types of regulated investment portfolios, including European UCITS frameworks.

4. Netting & Other Legal Constructs

A fourth tool, long-established, yet frequently hidden in plain sight, lies within the foundational legal infrastructure underpinning bilateral and agent-lender relationships: close-out netting. In its most basic form, netting allows institutions to collapse multiple offsetting obligations into a single, net payment obligation in the event of a counterparty default. Given that Basel capital requirements are calculated based on credit exposure, the ability to legally net exposure upon default dramatically reduces the Risk-Weighted Assets calculation. To provide the necessary macroprudential and legal foundation for this framework, global trade bodies play a critical role; for example, ISLA procures and maintains annually updated, comprehensive legal netting opinions across 71 jurisdictions for the Global Master Securities Lending Agreement (GMSLA). ISLA also provides opinions to support the ISLA Pledge GMSLA documentation suite.

To bridge product-specific boundaries on a global scale, the international financial markets also utilise the Cross-Product Master Netting Agreement (CPMA). The CPMA operates internationally as a legally binding master netting framework. This overarching contract effectively compresses exposures across product specific agreements such as the GMSLA, the Global Master Repurchase Agreement (GMRA), and the ISDA Master Agreement for example, into a single legal netting set.

Core Advantages

Portfolio Exposure and Capital Optimisation: The primary strategic objective of deploying a CPMA globally is to capture capital efficiencies by netting SFT and derivative exposures together. SFTs and over-the-counter derivatives traditionally operate in distinct operational and legal structures. Without this overarching framework, a bank facing a single buy-side client must capitalise its derivatives risk separately from its securities lending or repo risk, limiting the ability to offset exposure across product portfolios. The CPMA reduces this total exposure by introducing a cross-netting protocol upon a counterparty insolvency event. Close-out values are calculated independently within each underlying master contract, and the resulting independent termination balances are subsequently aggregated and set off at the overarching CPMA framework level. This collapses multi-product exposures down to a single, net close-out payment, thus reducing counterparty credit risk and unlocking vital capital.

US GSIB - Form FR Y-15: Within the specific context of the US Basel III re-proposal, recognising cross-product netting via a Qualifying Cross-Product Master Netting Agreement (QCPMNA) structure ensures that a banking organisation's systemic footprint indicators accurately mirror its true net economic credit exposure. Under the newly proposed US G-SIB Surcharge framework, this eliminates the inflation of a firm's interconnectedness and size metrics, thereby preserving vital lending and liquidity capacity in the interbank market during periods of acute financial stress

Considerations

Legal Costs: While the CPMA provides a robust netting set, its enforceability relies on the ongoing maintenance of qualified legal opinions across multiple jurisdictions. Note that these costs may be mutualised across the industry, where the relevant trade associations publish industry standard external counsel legal opinions.

Ultimately, overlaying product-specific industry standard legal documentation, such as the GMSLA, GMRA and ISDA, with an overarching cross-product master netting agreement, supported by industry legal netting opinions, represents a significant capital efficiency tool and a vital structural pillar for the global securities finance market. This solution can successfully resolve the tension between maintaining specialised operational plumbing and maximising top-of-the-house capital efficiency across multiple products.

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Additional Tools

It is important to note here that, depending on lender and borrower types, their jurisdictional requirements, risk appetite and legal certainty, there are other non-standardised capital efficiency tools being implemented in the market, for example custody margining 'pledge-back' and 'asset segregation' structures, which tend to be based on tailored, bespoke frameworks agreed between the parties. Additionally, tangential derivatives-based product solutions such as Total Return Swaps (TRS) and Synthetic Risk Transfer (SRT) may also increasingly form part of the broader securities finance capital efficiency toolkit, though again, given the differing risk profiles of these derivatives products, as well as operational and documentation divergence, adoption will be impacted by lender risk profiles.

Beyond derivative and bespoke legal structures, the market is witnessing the impactful emergence of tokenised real-world assets such as digital representations of cash, sovereign debt, and money market funds (MMFs), operating as a highly sophisticated tool for capital and liquidity optimisation. By tokenising real world assets onto distributed ledgers assets are transformed into programmable, permanently mobilizable liquidity that transcends standard banking hours and traditional clearing windows. This shift to near-instantaneous mobility allows for real-time exposure management and atomic settlement, eliminating the need for substantial, idle capital buffers and trapped liquidity forced by sequential T+1 or T+2 settlement cycles.

Crucially, transitioning from reactive, end-of-day reconciliation to continuous, real-time valuation delivers material prudential and operational benefits. Moving assets via real-time allows firms to compress reported exposures at the close of the business day, directly lowering counterparty credit risk charges under standardised capital frameworks. This mobility allows banks to dynamically optimise HQLA (and other assets), shifting from traditional liquidity buffering towards real-time liquidity deployment. This enhances forecasting accuracy while improving structural metrics across the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

The suite of structural, legal, and data-driven tools analysed in this paper demonstrates that while the regulatory landscape is shifting, the securities finance market has viable pathways to mitigate rising capital constraints. Each market participant has a unique business profile and geographic footprint, so it is important to recognise that there is no one-size-fits-all solution within this toolkit.

We hope that ISLA members will utilise this paper as a practical framework to evaluate their current operational structures, engage in active dialogues with their banking partners, and carefully consider the options best suited to preserving their competitive positioning. Navigating the final implementation of the Basel III Endgame will require deliberate planning, and now is the time for firms to assess these strategic tools.

About the Authors

Mark Faulkner
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Mark is a serial entrepreneur with a track record of building companies that serve the Capital Markets.

Capital Credit Ratings, founded in 2022, fills an important infrastructural gap in the Global Capital Markets – providing regulated Credit Ratings for buy-side funds. Co-Founded with Tom Aubrey, the company will provide Banks, Asset Managers and large Funds with services designed to reduce transactional friction and promote the alignment of capital with risk.

Alongside his business partner Donal Smith, he co-founded Credit Benchmark in 2013, introducing the world's most comprehensive source of consensus credit risk data.

In 1994, Mark spotted an opportunity to provide customers in the securities financing industry with independent specialist advice and services. Data Explorers became the leading provider of securities lending data across all global market sectors. The company continues to operate – now trading as part of S&P Securities Finance.

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Thomas Aubrey

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Tom is a credit risk specialist cofounding Capital Credit Ratings in 2022 which will address an important infrastructural gap in the Capital Markets by providing regulated Credit Ratings for buy-side funds. Co-Founded with Mark Faulkner, the company will provide Banks, Asset Managers and Funds with a range of services designed to promote the alignment of regulatory capital with risk. Tom set up Credit Capital Advisory in 2012 providing credit risk advisory services including credit modelling, regulatory assessments, infrastructure finance solutions and asset allocation based on the credit cycle. He is the author of Profiting from Monetary Policy published by Palgrave on credit cycle measurement. He was previously the Global Managing Director of Fitch Solutions and held senior management positions at Thomson Financial and FT Interactive Data.

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Farrah Mahmood
Head of Advocacy, Public Policy & Regulatory Strategy, ISLA

Farrah joined ISLA in September 2019 and in January 2026 became Head of Advocacy, Public Policy & Regulatory Strategy.

Farrah provides invaluable support to this strategically important part of the Association's focus, by working with the various workstream coordinators to monitor and assess EMEA financial regulations, including Tax, that have potential to impact the securities lending market.

Farrah reviews regulatory implementation, consultations and manages industry working groups, whilst monitoring updates from policy makers & National Competent Authorities to maintain best practice documentation.

Prior to ISLA, Farrah occupied client service and desk support roles within derivatives and securities lending middle office, as well as in asset servicing operations, for J.P Morgan Chase.

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About ISLA

The International Securities Lending Association is the leading trade association for the securities financing industry. Our 280+ global members based in 35 jurisdictions, include beneficial owners, institutional investors, asset managers, custodial banks, lending agents, prime brokers, fintechs and service providers, spanning the breadth of the securities financing ecosystem, covering activities such as securities lending, borrowing, financing, collateral management and related digital transformation.

Our role in today's evolving financing ecosystem is to ensure the market, legal, regulatory and operational foundations are aligned to stakeholder expectations, to support growth that is credible, transparent and resilient. We work with our members, global regulators and policy-makers, to drive clarity, certainty and best practice. Across regions, infrastructures and asset classes, the system is evolving beyond its traditional boundaries. ISLA helps members shape that evolution in a manner that is practical, coordinated and fit-for-purpose.

ISLA has supported the industry for 30+years and more recently in 2024, we established our affiliate, ISLA Americas. Working in collaboration with our global network of partners and peer associations, we provide a global advocacy voice for the international securities finance market, ensuring that members operating across borders benefit from a cohesive, unified approach to market evolution and regulatory change.

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