

BNP Paribas Securities Services

Exhibit 1b - AGENCY SECURITIES
LENDING

October 2017



BNP PARIBAS

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Agency securities lending

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1. Securities Financing Transactions execution policy

A. Introduction

This policy is issued pursuant to, and in compliance with, MiFID2 European Commission Delegated Regulation (EU) 2017/575 of 8 June 2016 supplementing the MiFID II Directive (2014/65/EU) and the Markets in Financial Instruments Regulation (Regulation 600/2014) (MiFIR) (“**MiFID2**”).

This policy provides an overview of how BNP Paribas Securities Services (“**Securities Services**”) executes Securities Financing Transactions (“**SFTs**” also referred to as “**Loans**”, as relevant) (defined by SFTR (Regulation (EU) 2015/2365 of the European Parliament and the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012) it carries out in its capacity as agent lender and the factors that may affect the way in which the SFTs are executed.

A.1. – Agency lending programme

Securities Services’ agency lending programme (“**AGL**”) entitles it to act as agent on behalf of its lending clients (principals to the transaction), in order to generate revenues for those clients by lending their securities upon agreed terms with approved counterparties (each a “**Loan**”).

The principal to the transaction will be referred to as “**the client**”. The borrowers will be referred to as “**the counterparty**”. Securities Services acting as agent lender is also referred to as “**the Agent**”.

MiFID2 defines “*execution of orders on behalf of clients*” as an investment service, which consequently qualifies the execution of agency securities lending SFTs as such.

A.2. – Financial instruments to which this policy applies

This policy refers to those SFTs carried out by Securities Services as part of its agency lending programme only.

A.3 – Execution venues currently used

The list of execution venues (as that term is defined in MiFID2) used by Securities Services is indicated in section 4.B and comprises :

- Counterparties to the Loans (liquidity providers) as approved by each principal participant in the agency lending programme
- Equilend / Bondlend, (a **Multilateral Trading Facility**).



B. Agency securities lending execution framework

The approach to the execution policy for each Loan will depend upon the strategy driving the requirement for the relevant Loan as described in B.1 below.

B.1 - Discretionary Lending

Discretionary lending is based on the availability of the security at the time the request to borrow the security is made to the Agent by the counterparty.

Loan requests can be submitted directly to the counterparty or via the Equilend / Bondlend trading platform which matches lenders' and borrowers' supply and demand.

Loans are over the counter (OTC) in nature for which liquidity and transparency is limited¹. Securities Services therefore uses both internal and external sources of data (as available) to ensure its transactions fees are in line with the market average.

The best commercial arrangement may not only lie with the highest fee offered by the counterparty but also with a combination of other factors set out below. Securities Services will therefore monitor the quality of execution of the Loan based on those various factors.

External sources of data include Bloomberg, Markit , Datalend and the bid offer spreads quoted between market participants.

B.1.1 – The use of a fair allocation algorithm to the lending activity

Where the security is available from one or more clients, and the counterparty approved by these clients request this security, Securities Services ensures clients have an equal and fair opportunity to participate to a loan transaction. Securities Services employs a fair allocation algorithm which is embedded in its trading system.

The algorithm identifies the allocation of each Loan between client and counterparty based on a negative scoring system. Each time a client's securities are available to lend but are not allocated to the counterparty, the client will receive a negative score. The higher the score the higher in the allocation queue the client reaches. The fair allocation algorithm is monitored by Securities Services' dedicated product control team which is independent from the front office trading function.

B.1.2 – SFT strategies and relevant execution factors

Below is a list of core SFT strategies which may drive the appropriate approach to best execution:

General collateral

Where the counterparty wishes to borrow a predefined basket of securities with the objective of using those securities as collateral for purposes other than to cover a short position the form of collateral will play a greater role in the economic driver for the loan.

¹ Art. 64(4) Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 states 'When executing orders or taking decision to deal in OTC products including bespoke products, the investment firm shall check the fairness of the price proposed to the client, by gathering market data used in the estimation of the price of such product and, where possible, by comparing with similar or comparable products.'



In such case Securities Services will consider the following execution factors to determine the appropriate fee for the Loan.

- 1) Collateral acceptability and flexibility of the client (the more flexible the approved collateral the more likely the loan will be made);
- 2) The value of loan (defined in MIFID2 as “size of the transaction”); and
- 3) Relative stability of the clients’ portfolio for the purposes of lending general collateral: the more stable the portfolio the more attractive the assets are to the borrower
- 4) The request of the borrower. As credit is extended in the form of margin the borrower may have a credit limit consideration

Collateral upgrade

This strategy occurs where the counterparty is looking to borrow a basket of assets and provide securities as collateral that have a higher financing cost to the counterparty. Typically, this activity is driven by the counterparty’s regulatory needs to hold assets on its balance sheet for a period of not less than 30 business days in order to improve its regulatory ratios (i.e. liquidity coverage ratio).

The wide range of collateral provided by the counterparty is not included in market data gathering sources.

In such instances, the following factors are considered in order to obtain the best possible outcome for the client and include the following:

- 1) Quality of the assets lent;
- 2) Collateral approved by the client
- 3) Term of the Loan;
- 4) Jurisdiction of the client. A non nettable country of residence will be less attractive to the borrower;
- 5) Relative stability of the portfolio/asset; and
- 6) Value of loan (defined in MIFID2 as “size of the transaction”).

Short coverage, specials and other strategies

Where a counterparty wishes to borrow a particular security to either cover a short position, for example as a hedge for another trading strategy, or to deliver into a futures expiry, Securities Services will refer to Market Data Providers to analyse the recent history of the securities in question in terms of utilisation and historical fees as a factor in setting the fee for the Loan.

Execution factors taken into consideration to obtain the best possible outcome for the client include :

- 1) Liquidity of the security, lendable size, utilisation rate and the market demand;
- 2) The Agent’s market share in terms of requested security; and/or
- 3) Value of the loan (or “size of the transaction”).



B.2 – “Specific arrangement” - Exclusive Lending

At times, clients may decide the most effective manner for them to generate revenue may be by lending their portfolio under an exclusive arrangement whereby the counterparty will have exclusive access to a client’s portfolio of securities for an agreed fee and duration in return for the payment in equal monthly instalments over the life of the arrangement.

The terms of the exclusive mandate require Securities Services to run an auction process on the lendable portfolio, on behalf of the client.

Securities Services will provide the details of the auction to all counterparties selected by the client, taking into account the restrictions, buffers, collateral and other parameters.

Securities Services will manage the auction process as agent on behalf of the client, collating the counterparties’ bids including revenue guarantee, conditions and duration of the exclusive mandate and present the results to the client who will select the successful counterparty.

The counterparty chosen will then have exclusive access to the client’s portfolios for the agreed duration and fee. It will pay monthly instalments for the duration of the agreed period.

Securities Services provides the logistics in support of the entire auction process to ensure it is run in a fair and transparent manner.

The loans borrowed by the counterparty under the terms of the exclusive arrangement are out of scope of best execution as the auction process itself acts as a proxy for best execution.



2. Management of conflicts of interest

Conflicts of interest may arise when Securities Services, in its capacity as agent, enters into a transaction on behalf of the client with its own principal lending desk or with another BNP Paribas group entity as counterparty (together “**BNPP**”). The selection of BNPP as a counterparty is carried out in accordance with the Conflict of Interest Policy.

Borrowing requests received from counterparties are analysed and executed wherever possible in a timely manner. Counterparty requests are addressed on a time priority basis irrespective of which counterparty has sent the request. This is designed to ensure that such requests from entities within the BNPP group will not be prioritised over those of external (i.e. non BNPP) counterparties.

3. Execution Factors

Requests for the same security made by different counterparties will take the following additional factors into account:

- **Fee offered** (defined in MIFID2 as “**Price**”): in most cases this is the defining factor as it is directly linked to revenue generation and therefore the higher the fee offered the more likely the Agent will select that counterparty.
- **Implied reliability of the counterparty**: traders have knowledge of counterparties who will keep the position on loan for longer periods as this is also directly linked to revenue generation, or towards counterparties who can maintain stable balances throughout the year.
- **Likelihood of execution & settlement**: counterparties who frequently fail to settle new loans, or to return recalled securities in a timely manner are less likely to be selected for the loan. Inefficiencies are not only costly from a missed opportunity point of view but may present a reputational issue for the client.

The following the factors listed in MIFID2 are not relevant for the agency lending programme:

- **Speed of execution**: Securities Services do not get clients orders, rather locates from counterparties. Securities Services endeavours to reply as soon as feasible to the counterparties’ locates, in order to maximise the chance of lending our clients securities. However, the speed of response does not mean the loan will be concluded.
- **Costs**: There are no additional costs to the transaction that the fee the client agrees with Securities Services when signing its service agreement.
- **Nature of the transaction**: Securities Services only treats RFQs, hence the nature of orders has no impact on its execution framework.

Due to internal compliance and risk guidelines, Securities Services may choose not to proceed with some transactions. In case Securities Services is offering indemnification for instance, internal due diligence processes are applied and would complement or be added to clients requirements.



4. Execution venues

A. Execution venues policies

This document is the best execution policy provided by Securities Services as an agent lender. This document does not take into account the individual execution policies of the various execution venues used and listed in section 4.B. below.

B. Execution venues list

Below is the list of executions venues currently used by Securities Services. This list is subject to change and will be updated during the yearly review of the policy.

ABBEEY NATIONAL TREASURY SERVICES PLC
ABN AMRO BANK NV
BANCO SANTANDER
BANK OF NOVA SCOTIA
BARCLAYS BANK PLC
BARCLAYS CAPITAL SECURITIES LTD
BNP PARIBAS
BNP PARIBAS ARBITRAGE
BNP PARIBAS SECURITIES SERVICES
CITIGROUP GLOBAL MARKETS LIMITED
COMMERZBANK AG
CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK
CREDIT SUISSE SECURITIES (EUROPE) LIMITED
DEUTSCHE BANK AG
ERSTE GROUP BANK AG
EQUILEND / BONDLEND
GOLDMAN SACHS INTERNATIONAL
HSBC BANK PLC
INDUSTRIAL AND COMMERCIAL BANK OF CHINA FINANCIAL SERVICES LLC
ING BANK N.V.
J.P. MORGAN SECURITIES PLC
LLOYDS BANK PLC
MACQUARIE BANK LIMITED
MERRILL LYNCH INTERNATIONAL



MORGAN STANLEY & CO. INTERNATIONAL PLC
MUFG SECURITIES EMEA PLC
NATIXIS
NOMURA INTERNATIONAL PLC
RAIFFEISEN BANK INTERNATIONAL AG
RBC EUROPE LIMITED
SOCIETE GENERALE
STANDARD CHARTERED PLC
THE ROYAL BANK OF SCOTLAND PLC
UBS LIMITED
UNICREDIT BANK AG

