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Securities Lending and Borrowing: A Practical Guide for Investors

The Securities Lending and Borrowing (SLB) mechanism is an important component of the securities market, enabling investors to temporarily lend eligible securities through a regulated framework in return for a lending fee. It facilitates efficient utilisation of securities while providing investors an opportunity to earn additional income from securities they intend to hold for the longer term.

However, participation in SLB requires an understanding of key aspects such as eligibility, lending fees, tenure, liquidity, recall, corporate actions, charges, margins and associated risks. The accompanying Frequently Asked Questions (FAQs) on Securities Lending and Borrowing provide a simple and practical explanation of these aspects and address common queries that investors may have before participating.

The objective is to enhance investor awareness and facilitate a better understanding of the SLB mechanism, enabling investors to make informed decisions based on their individual requirements and the applicable regulatory framework.

Frequently Asked Questions (FAQs)

Securities Lending and Borrowing (SLB) Mechanism

1. What is Securities Lending and Borrowing (SLB)?

Answer: Securities Lending and Borrowing (SLB) is a regulated mechanism through which an investor who owns eligible securities can temporarily lend those securities to another market participant in return for a lending fee.

The borrower uses the securities for permitted market activities and is required to return equivalent securities of the same type and class in accordance with the applicable settlement mechanism.

In simple words:

You own shares → lend them temporarily → earn a lending fee → receive equivalent shares back.

2. Is SLB the same as selling my shares?

Answer: No.

When you sell your shares, you permanently dispose of your investment.

Under SLB, the securities are temporarily lent, and the borrower is required to return equivalent securities in accordance with the applicable SLB framework.

Selling:

Shares → Sold → Investment disposed of

SLB:

Shares → Lent → Lending fee earned → Equivalent securities returned

3. Why would someone want to borrow my shares?

Answer: One important reason is short selling.

For example, a market participant may expect the price of a particular security to fall. Subject to applicable rules, the participant may borrow the security, sell it in the market and subsequently acquire equivalent securities to return to the lender.

SLB therefore provides a mechanism through which securities can be borrowed for permitted market activities.

4. Is SLB only for large institutional investors?

Answer: No.

SLB is available to different categories of investors, including retail and institutional investors, subject to the applicable requirements.

An investor generally participates through an eligible SLB Participant/ Clearing Member.

5. Can I lend shares that I am holding for the long term?

Answer: Yes, provided the securities are eligible for SLB.

For example, if you intend to hold eligible shares for the long term and do not expect to need them during

the lending period, you may consider lending them to potentially earn additional income.

However, you should consider your liquidity requirements before lending.

6. Is lending shares similar to renting out a house?

Answer: The basic concept can be understood similarly, although the legal and market mechanics are different.

House:

Owner → rents it → receives rent → property is returned.

SLB:

Investor → lends securities → receives lending fee → equivalent securities are returned.

Unlike a private rental arrangement, SLB operates through a regulated market and clearing mechanism.

7. Is SLB regulated by SEBI?

Answer: Yes.

The Securities Lending and Borrowing mechanism operates under the regulatory framework prescribed by the Securities and Exchange Board of India (SEBI), including the Securities Lending Scheme, 1997, and subsequent amendments and circulars.

SEBI has issued several circulars reviewing and amending the SLB framework over the years, including an amendment to the Securities Lending Scheme, 1997, in March 2023.

8. Is there a SEBI mandate that I must lend my shares?

Answer: No.

SLB is a facility available to investors. An investor is not required to lend securities merely because those securities are eligible for SLB.

The decision to lend is voluntary.

9. Does SEBI fix the lending fee?

Answer: No.

SEBI establishes the regulatory framework, but the lending fee is generally market-determined through the SLB platform.

Participants quote the lending fee per share, and orders are matched through the applicable order-matching mechanism.

10. Which securities are eligible for SLB?

Answer: Not every listed security is automatically eligible for SLB.

The securities eligible for lending and borrowing are determined under the applicable SEBI and exchange/clearing-corporation framework.

The framework includes securities traded in the F&O segment, liquid index ETFs meeting specified criteria, and certain other securities satisfying prescribed eligibility conditions.

The eligible list may change from time to time.

Investor tip: Always check the latest list of securities eligible for SLB before placing an order.

11. Can I lend shares lying in my demat account?

Answer: Yes, provided the securities are eligible and the applicable requirements are satisfied.

SLB transactions are undertaken in dematerialised form through the prescribed market infrastructure.

12. Can I lend all the shares in my portfolio?

Answer: No.

Only securities eligible under the applicable SLB framework can be lent.

Also, investors should consider whether they may need some of their holdings for their own investment or liquidity requirements.

13. What if nobody wants to borrow my shares?

Answer: Your lending order may remain unmatched.

Simply owning an eligible security does not mean that you will automatically earn a lending fee.

There must be sufficient borrowing demand at the fee quoted by the participants.

14. Why should I lend my shares?

Answer: The primary reason is to potentially earn additional income from securities that you intend to continue holding.

For example, if you are a long-term investor and do not expect to sell your eligible shares during the relevant period, lending them through SLB may provide an additional source of income.

15. What are the advantages of lending shares?

Potential advantages include:

- Additional income through lending fees.
- Better utilisation of securities already held in the portfolio.
- Continued economic exposure to the underlying investment, subject to the applicable SLB framework.
- Access to a regulated market and clearing mechanism.
- Applicable corporate benefits are dealt with under the SLB framework.

However, investors should consider the associated risks and restrictions before participating.

16. Can SLB provide a fixed or guaranteed return?

Answer: No.

The lending fee is market-determined and is not a fixed or guaranteed return.

The fee can vary depending on the security, demand, availability, tenure and prevailing market conditions.

17. Can SLB make me rich quickly?

Answer: No.

SLB should not be viewed as a quick-profit or guaranteed-income product.

The lending fee can vary considerably, and the underlying securities remain subject to market risks.

18. What is a lending fee?

Answer: A lending fee is the amount paid by the borrower to the lender for borrowing the securities.

It is generally quoted per share.

For example:

1,000 shares × ₹5 lending fee per share = ₹5,000 gross lending fee

19. How is the lending fee decided?

Answer: The lending fee is market-determined.

Participants place lending and borrowing orders on the SLB platform, and orders are matched according to the applicable price-time priority mechanism.

The lending fee is quoted per share.

20. Is there a standard lending fee or fixed percentage?

Answer: No.

There is no single fixed lending fee applicable to all securities.

The fee may vary depending on:

- demand for the security,
- availability of the security,
- market conditions,
- expected demand for borrowing,
- tenure, and
- other market factors.

21. What is the usual lending fee?

Answer: There is no single "usual" lending fee that applies across the market.

The fee can vary significantly between securities and over time.

Therefore, investors should check the actual prevailing fee for the specific security and SLB series rather than relying on a general percentage.

22. What is the minimum period for which I can lend my shares?

Answer: The available tenure depends on the SLB series.

NSE currently provides monthly SLB contracts with tenures up to 12 months and has also introduced an R3 shorter-tenure series, with a reverse-leg settlement at T+3, effective August 17, 2026.

Therefore, investors should check the currently available SLB series before placing an order.

23. What is the maximum tenure?

Answer: The maximum tenure under the SLB framework is 12 months.

The framework also provides for rollover in specified circumstances, but the total duration of the contract, including permitted rollovers, cannot exceed the prescribed maximum period.

24. How long will my shares be unavailable to me?

Answer: Your shares will generally remain subject to the SLB arrangement until the applicable reverse-leg settlement date, unless an eligible early recall is successfully executed.

Therefore, before lending, ask yourself:

"Will I need these shares during the lending period?"

If you may need to sell them urgently, SLB may reduce your flexibility.

25. Can I get my shares back before the end of the tenure?

Answer: Yes. The lender has an early recall facility, subject to the applicable SLB mechanism.

NSE permits lenders to place recall orders through the SLB platform. The lending fee applicable to the remaining period is market-determined.

However, early recall does not necessarily mean that the securities will become available immediately. The applicable order-matching and settlement process has to be completed.

26. What if I suddenly need to sell my shares?

Answer: While the securities are out on loan, you generally cannot simply sell those same securities in the normal market.

You may need to initiate an early recall and wait for the securities to be returned through the applicable settlement mechanism.

Investor tip: Do not lend securities that you may need for an immediate sale.

27. Is there any security or collateral against the shares I lend?

Answer: Yes.

SLB transactions are subject to margin and risk-management requirements prescribed by the clearing corporation.

For example, NSE Clearing currently specifies various margins, including VaR, Extreme Loss Margin, Mark-to-Market Margin and lending-price-related margins, depending on the transaction and stage of settlement.

28. Is there a 125% margin in SLB?

Answer: The commonly mentioned 125% should not be treated as a universal SLB margin requirement.

Under the current NSE framework, different margins apply to lend and borrow transactions.

For example, NSE specifies 25% of the lending price as a margin for lend transactions until securities pay-in, while 100% of the lending price is collected for borrow transactions from T+1 until the securities are returned, along with other applicable margins.

The actual margin requirements should therefore be checked under the latest clearing-corporation framework.

29. Is there a guarantee that I will get my securities back?

Answer: SLB transactions operate through a structured clearing and settlement mechanism, with margins and risk-management procedures designed to manage settlement and counterparty risks.

NSE states that the clearing mechanism provides for the return of securities to the lender and procedures such as auction and financial close-out in case of failure to return securities.

However, investors should not interpret this as meaning that SLB is an entirely risk-free investment product.

30. What happens if the borrower fails to return my securities?

Answer: If the borrower fails to return the securities on the applicable reverse-leg settlement date, the clearing corporation may conduct a buy-in/auction to procure the securities.

If the securities cannot be procured through the auction, the transaction

may be financially closed out in accordance with the applicable rules.

31. Will someone pay me a separate "guarantee amount"?

Answer: No.

The lender receives the agreed lending fee.

Margins and collateral maintained through the clearing mechanism are primarily risk-management arrangements and are not an additional guaranteed return payable to the lender.

32. Can I directly lend my shares to another person?

Answer: The exchange-based SLB mechanism is not simply a private arrangement between two individuals.

The transaction is undertaken through the prescribed market infrastructure and eligible SLB Participants/Clearing Members.

33. Do I need a broker to participate in SLB?

Answer: An investor generally participates through an eligible SLB Participant/Clearing Member.

At NSE, eligible clearing members, including specified banks and custodians, can register as SLB Participants. Participants can undertake lending/borrowing transactions on their own account or on behalf of clients, subject to the applicable requirements.

Investors should check whether their broker/intermediary provides SLB services.

34. What are the eligibility requirements for an SLB Participant/broker?

Answer: The intermediary must satisfy the applicable requirements prescribed by SEBI, the stock exchange and the clearing corporation.

Where transactions are undertaken on behalf of clients, prescribed client agreements and identification requirements also apply.

35. Are there any charges for the lender?

Answer: Yes.

Depending on the intermediary and transaction, charges may include:

- brokerage;
- depository/settlement charges;
- applicable statutory levies and taxes; and
- other charges prescribed by the intermediary.

The investor should ask the intermediary for a complete schedule of applicable charges before participating.

36. Is brokerage charged on SLB?

Answer: An intermediary may charge brokerage for facilitating an SLB transaction.

The investor should check the applicable brokerage and other charges with the concerned SLB participant before placing the transaction.

37. Are there transfer or depository charges?

Answer: Applicable depository, settlement, intermediary or other transaction-related charges may apply depending on the transaction and intermediary.

Investors should obtain a clear disclosure of all applicable charges before participating.

38. What happens to my dividend if I lend my shares?

Answer: The economic benefit of the dividend is passed on to the lender under the applicable SLB framework.

The dividend amount is recovered from the borrower and passed on to the lender through the prescribed settlement mechanism.

39. What happens to my voting rights if I lend my shares?

Answer: Investors should pay particular attention to this issue.

The treatment of AGM/EGM-related rights depends on the SLB contract series and applicable rules.

NSE currently provides separate contract series, including:

- Series A: contracts that are mandatorily foreclosed in case of AGM/EGM; and
- Series B: contracts that are not foreclosed in case of AGM/EGM.

Therefore, if exercising voting rights is important to you, check the applicable SLB series and recall provisions before lending.

40. What happens if the company announces a stock split?

Answer: The SLB position is appropriately adjusted so that the lender receives the revised quantity of securities in accordance with the applicable corporate-action provisions.

For example, if a stock split results in an increase in the number of shares, the borrower's obligation is correspondingly adjusted.

41. What happens if there is a bonus issue, merger or another corporate action?

Answer: The treatment depends on the nature of the corporate action and the applicable SLB rules.

Under the framework, corporate actions such as bonus, merger/amalgamation and open offer may result in foreclosure of the contract on the ex-date, with appropriate treatment of the lending fee.

Therefore, investors should check the applicable treatment of the particular corporate action.

42. What are the limitations or disadvantages of lending my shares?

Answer: Important considerations include:

1. Reduced liquidity:

You may not be able to immediately sell the securities while they are lent.

2. Voting considerations:

You need to consider the applicable treatment of voting rights and AGM/EGM events.

3. Recall limitations:

Although early recall is available, the securities do not necessarily become available immediately.

4. Variable income:

The lending fee is market-determined and is not guaranteed.

5. Market risk:

The value of the underlying shares can rise or fall.

6. Corporate-action considerations:

Certain corporate actions may result in adjustment or foreclosure of the SLB contract.

7. Charges:

Brokerage and other charges reduce the net income.

8. Operational considerations:

The investor must comply with the applicable SLB procedures and documentation.

43. What happens if the price of my shares falls while they are lent?

Answer: Lending the shares **does not protect you from market losses**.

For example:

You own shares worth ₹1,00,000.

The share price subsequently falls, and the shares are worth ₹80,000.

Your investment has fallen in market value by ₹20,000, although you may have earned a lending fee.

The lending fee does not eliminate market risk.

44. What happens if the price of my shares rises?

Answer: You continue to have economic exposure to the underlying investment, subject to the applicable SLB framework.

For example:

Investment value: ₹1,00,000

New market value: ₹1,20,000

The lending fee may provide additional income alongside the change in the value of the underlying securities.

45. Can I lose money by lending shares?

Answer: The lending fee itself is intended to provide income, but the underlying securities remain exposed to market movements.

Investors should also consider charges, liquidity constraints, corporate actions and other applicable risks.

Therefore, SLB should not be viewed as a risk-free method of earning additional income.

46. Is SLB the same as short selling?

Answer: No.

They are related but different.

Short selling: Selling a security that the seller does not own, subject to the applicable regulatory framework.

SLB: Borrowing securities through the prescribed mechanism.

SLB can facilitate the availability of securities for permitted short-selling and other market activities.

47. Can the borrower sell the shares that I have lent?

Answer: Once securities are transferred to the borrower under the applicable SLB mechanism, the borrower may deal with those securities in accordance with the applicable regulatory framework.

The borrower is ultimately required to return equivalent securities in accordance with the SLB contract.

48. What happens if the borrower makes a profit by selling the borrowed shares?

Answer: The borrower's trading profit or loss is separate from the lender's lending fee.

The lender receives the agreed lending fee, while the borrower bears the economic consequences of its own trading strategy.

49. How much money can I earn by lending my shares?

Answer: There is no fixed amount.

Your gross lending income is generally calculated as:

Number of securities lent × Lending fee per security

For example:

1,000 shares × ₹5 per share = ₹5,000 gross lending fee

The actual net amount received will depend on applicable brokerage, charges and taxes.

50. How much will I actually earn after charges and taxes?

Answer: Investors should not consider the quoted lending fee as their final income.

A simple way of looking at it is:

Gross Lending Fee

Less: Brokerage and applicable charges

Less: Applicable taxes/levies

= Net amount received

For example, if:

- Shares lent = 1,000
- Lending fee = ₹5 per share

Then:

Gross lending fee = ₹5,000

The investor should subsequently account for applicable brokerage, transaction/depository charges, taxes and other applicable deductions to determine the actual net amount.

The tax treatment of income arising from securities lending depends on the applicable tax laws and the circumstances of the investor. Investors should consult a tax professional for advice specific to their circumstances.

51. Does the entire lending fee go into my pocket?

Answer: No.

The quoted lending fee represents the gross amount before considering applicable brokerage, transaction-related charges, taxes and other deductions.

Therefore, investors should compare the net income, rather than merely the quoted lending fee.

52. Will I need these shares for any immediate purpose?

Answer: This is one of the first questions an investor should ask before lending.

If you may need to:

- sell the shares,
- participate in a particular corporate action,
- exercise voting rights, or
- otherwise have immediate access to the securities.

You should understand the applicable recall and settlement provisions before lending.

53. What should I check before lending my shares?

Answer: Before participating in SLB, an investor should check:

1. Is my security eligible for SLB?
2. What lending fee is currently available?
3. How long will my shares be unavailable?
4. Can I recall them early?
5. What charges will I have to pay?
6. What happens to dividends?
7. What happens to voting rights?
8. What happens if there is a bonus, split, merger or other corporate action?
9. What margin and settlement arrangements apply?
10. What happens if the borrower fails to return the securities?
11. Will I need these shares for any immediate purpose?
12. What will be my net income after charges and applicable taxes?

54. Explain SLB with a simple example.

Answer: Suppose Mr. A owns 1,000 shares of ABC Ltd.

He intends to hold these shares as a long-term investment and does not expect to sell them during the relevant period.

The shares are eligible for SLB, and there is demand from borrowers.

He lends the 1,000 shares at a lending fee of ₹4 per share.

Gross lending income:

1,000 × ₹4 = ₹4,000

The borrower uses the securities for a permitted purpose.

At the end of the applicable period, the borrower is required to return equivalent securities through the SLB settlement mechanism.

Thus:

Own shares → Lend shares → Earn lending fee → Equivalent shares returned

The investor should then account for applicable charges and taxes to determine the net amount earned.

SLB at a Glance

Particular	Simple Explanation
What is SLB?	Temporary lending of eligible securities for a fee
Who can lend?	Investors holding eligible securities
Who can borrow?	Eligible market participants
Why lend?	To potentially earn additional income
Is it a sale?	No
Is it regulated?	Yes, under SEBI's framework
Which securities?	Securities eligible under the applicable framework
Lending fee	Market-determined
Fixed return?	No
Maximum tenure	Up to 12 months
Early recall?	Available, subject to applicable mechanism
Dividend	Passed on to lender under applicable framework
Voting rights	Depend on applicable SLB series/rules
Corporate actions	Adjusted/foreclosed as applicable
Margins	Applicable under the clearing framework
Borrower default	Auction/buy-in and financial close-out mechanisms apply.
Brokerage/charges	May apply
Market risk	Continues to exist
Guaranteed profit?	No
Main benefit	Potential additional income
Main consideration	Securities are temporarily unavailable for normal sale.

Investor Awareness Message

SLB allows an investor holding eligible securities to potentially earn additional income by lending those securities temporarily to another market participant. However, before participating, investors should understand the lending fee, tenure, recall facility, applicable charges, voting rights, treatment of dividends and corporate actions, margin and settlement arrangements, and associated risks.

SLB is a regulated market mechanism, but it is not a guaranteed-return investment product. Investors should make an informed decision based on their own liquidity requirements, investment objectives and understanding of the applicable terms.

Important: The SLB framework, eligible securities, contract series, margins, settlement arrangements and other operational parameters may be revised from time to time. Investors should refer to the latest SEBI, stock exchange and clearing-corporation circulars/information before participating. SEBI's SLB framework and current NSE information should be treated as the operative sources for applicable requirements.

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