ICGN Securities Lending Code of Best Practice

INTERNATIONAL CORPORATE GOVERNANCE NETWORK

16 Park Crescent
London,
W1B 1AH
United Kingdom

Tel: +44 (0) 20 7612 7098 Fax: +44 (0) 20 7612 7034

If you would like further information about the ICGN please contact Anne Simpson on execdirector@icgn.org

For membership enquiries contact Elizabeth Bagger, Membership Secretary on secretariat@icgn.org or visit our website for more details www.icgn.org

About ICGN

The International Corporate Governance Network is a not-for-profit body, founded in 1995 that has evolved into a global membership organisation of more than 500 leaders in corporate governance. Its members are based in 38 countries from around the world, and include professionals, corporations, policy makers and institutional investors with capital under management in excess of $US 10 trillion.

ICGN's Mission

The ICGN's mission is to develop and encourage adherence to corporate governance standards and guidelines, and to promote good corporate governance worldwide.

The ICGN exchanges ideas and information across borders, commissions research, develops best practices and is an advocate for good corporate governance with both the market and policy makers.

The ICGN promotes understanding through its annual and mid-year meetings in different countries around the world, which bring together those engaged with reform in order to improve understanding. ICGN's working committees develop best practice, carry out research and advocate policy reforms to support raising of standards.

In seeking to achieve this mission, the ICGN can draw on three unique strengths:

- **the breadth and expertise of its membership base**, which extends across the capital markets and beyond to include senior decision makers and opinion leaders in the practice of corporate governance;

- **its international institutional investor members** who collectively represent funds under management in excess of US$10 trillion, giving a focus upon the role and responsibilities of fiduciaries responsible for the long term savings of the wider community;

- **the geographic diversity of its membership**, with members drawn from over 38 countries from every region – North America, Europe, East and South Asia, Latin America, Africa and even the Middle East.

ICGN Securities Lending Code of Best Practice

Revised and approved by ICGN members at the 2007 AGM in Cape Town, South Africa.

The lending of securities and especially of common shares is an increasingly important practice which improves market liquidity, reduces the risk of failed trades, and adds significantly to the incremental return of investors. However, we have found that there is widespread misunderstanding of securities lending transactions on the part of those not directly involved in the process. The word 'lending' has itself misled many as in law the transaction is in fact an absolute transfer of title against an undertaking to return equivalent securities. Misconceptions as to its nature have led to loss of shareholder votes in important situations, as well as to cases of shares being voted by parties who have no equity capital at risk in the issuing company, and thus, no long-term interest in the company's welfare. Lenders' corporate governance policies may also be undermined through lack of coordination with lending activity. It is also imperative that there be as little risk as possible that a poll of the shareholders may be compromised through misuse of the borrowing process. To address these concerns the ICGN proposes this Code of Best Practice to its members. It encourages other concerned investors, market intermediaries, and public companies to take account of the Code where appropriate.

Three broad principles which apply to all areas of investment practice are here used to clarify the responsibilities of all parties engaged in stock lending. With their relevant applications in this area, they are:

First, **transparency**: the lending process, frequently handled today as a purely mechanical adjustment to custodial arrangements, should become subject to the same visibility and safeguards as any other transaction conducted on an owner's or beneficiary's behalf in a securities account.

Second, **consistency**: it is unreasonable to expect that lending agents can make subtle judgements as to when they should sacrifice some income in order to protect the lender's long-term economic interests and stewardship commitments. A clear set of policies which indicates with as little ambiguity as possible when shares shall be lent and when they shall be withheld from lending or recalled is necessary in order to ensure that similar situations are handled in the same way. Clear mechanisms should be set up to handle borderline situations. Neither the long-term economic interest in better governance nor the interest in maximising short-term remuneration should be allowed to exceed the parameters set for each by the stated policy of the primary lender.*

* An asterisk indicates when a term defined in Appendix III is used in the text for the first time.

Third, **responsibility**: responsible shareholders have a duty to see that the votes associated with their shareholdings are not cast in a manner contrary to their stated policies and economic interests. While fiduciaries have a duty to maximise economic returns to their beneficiaries, they equally have a fiduciary duty to protect their long-term interests through voting and other actions sometimes precluding lending. Fiduciaries also have a duty to ensure that the pursuit of more income is not subjecting their beneficiaries to greater risks. These responsibilities must be appropriately balanced according to the primary lender's voting policy, in accordance with its ultimate beneficiaries' preferences. This responsibility lies with the primary lender, and not with its agents.

By properly following these broad principles best practice with regard to share lending can be achieved. The difficulty lies in applying them thoroughly. Staffers or agents responsible for voting and investment decisions should always have full transparency whether and what percentage of shares have been lent. Beneficiaries should always know which percentage their manager has voted of its position in a given portfolio company. Consistency may be lost when a lender with a policy to recall shares to vote "on important issues" cannot know in a particular country with an early record date what the issues to be voted upon will be. (This is the case in the United States and Canada.) Responsibility has been ignored when lenders, drawn by suddenly rising demand, lend shares under circumstances in which it is highly probable that they are being borrowed in order to alter the result at a shareholders' meeting, possibly to their own detriment.

Specific aspects of best practice follow from these broad principles. While simple to state, their application may be complex and involve many unsuspected technical adjustments. We have therefore sought to provide more detailed guidance and explanation in the attached appendices. The basic tenets of best practice, however, are:

1. **All share lending activity should be based upon the realisation that lending inherently entails transfer of title from the lender to the borrower for the duration of the loan.** Most economic rights of the lender can be preserved through contractual agreements with the borrower. Those involving the issuer, however, such as the right to vote, or one's continuity on the share register, **cannot** be preserved in this way. If an investor wishes to vote its lent shares or protect its legal interests as a registered shareholder, it **must** recall the shares.

2. **During the period of a stock loan, lenders may protect their rights only with the borrower, since they have no rights with the issuer of the shares which have been lent.** Stock loans are normally collateralised at more than 100% of the current market value of the loan. The collateral may be cash, high-quality debt securities, or equivalent equity securities. Lenders must ensure that this collateral, together with any contractual claims upon the borrower, adequately protects their interests for the duration of the loan.

3 **Institutional shareholders should have a clear policy with respect to lending, especially insofar as it involves voting.** A lending policy should clearly state, *inter alia*, the lender's policy with regard to recall of lent shares for the purpose of voting them. All lending conducted by the institution or on its behalf should be done in accordance with this stated policy.

4 **Lending policy should be mandated by the ultimate beneficial owners of an institution's shares,** whether they be another institution or corporate body or an assemblage of individuals.

5 **Where lending activity may alter the risk characteristics of a portfolio, the policy should state the extent to which this is permitted.** This involves the extent of lending activity, the quality of the borrowers, the quality of the collateral accepted for loans, and its nature: cash, other securities, or a combination of the two, as well as any questions as to changes in the duration of the portfolio, as well as its other risk characteristics.

6 **The returns from lending should be disclosed separately from other investment returns when reporting to clients or beneficiaries. They should not be hidden under management and other costs.** As lending has become an important source of revenue, it behoves institutions to disclose its extent to their clients or beneficiaries, as well as the extent to which investment returns and cost ratios are being driven by or ameliorated by the returns from lending.

7 **It is bad practice to borrow shares for the purpose of voting. Lenders and their agents, therefore, should make best endeavours to discourage such practice.** Borrowers have every right to sell the shares they have acquired. Equally the subsequent purchaser has every right to exercise the vote. However, the exercise of a vote by a borrower who has, by private contract, only a temporary interest in the shares, can distort the result of general meetings, bring the governance process into disrepute and ultimately undermine confidence in the market.

The ICGN affirms the principle that companies should know who controls the votes at their general meetings, and that this transparency should benefit all market participants. Considering the availability of market instruments that separate economic ownership from control, the ICGN believes that it has become desirable for companies and the broader market to be able to track significant divergence of voting power from declared economic ownership**. The ICGN therefore invites the relevant market authorities to consider amending their holdings disclosure regimes to include the transfer of actual or contingent voting rights executed through the use of securities lending and derivatives**.

The attached appendices attempt to delineate in full the responsibilities of the different parties, the sorts of circumstances under which the above principles might be compromised, and how these situations should be handled in accordance with best practice. They are intended as guidance. Best practice may be achieved by other mechanisms as long as the principles are kept in mind in devising appropriate procedures.

Appendix I

Duties of the Respective Parties to a Lending Transaction

A. Lender's Responsibilities

Policy on Voting and Recall of Loaned Shares – The fund, fund sponsor, or principal manager* of a portfolio or fund from which shares are loaned (hereafter the primary lender*) should be responsible for drafting and publishing a general policy that clearly sets forth the scope of lending activity, and under what circumstances, if any, this activity is to be subordinated to voting and to the lender's duties as a long-term shareholder.

Terms of Master Agreement – A Master Lending Agreement among the primary lender, the borrower,* and any custodians, agents or other parties involved in the loan transaction should implement these policies, the attendant procedures, including the procedures for recalling* shares and whatever penalties there are for non-compliance, and indicate the likelihood that shares may be recalled for voting purposes. Needless to say, the Master Lending Agreement should protect the lender's and the borrower's economic interests to the greatest extent possible in the jurisdiction involved.

*Disclosure within the Lender's Ownership Chain** – The primary lender's trustees or directors should effectively communicate their policies and procedures to designated executives at the lending institution and at any agent organisations involved in the investment, lending, or voting of those shares, as well as with those responsible for corporate governance for the portfolio or fund in question. All changes in actual positions due to any lending activity should be updated daily to all those executives charged with investing or voting the shares.

Responsibility for Compliance – The primary lender should be responsible for ensuring that its policies and procedures are practicable, that they fulfil the principles expressed herein, and that they are properly administered no matter what the lender's structure and division of responsibilities among different business units or agent companies.

Dispute Resolution – The primary lender or its principal manager should establish and administer specific procedures to resolve disputes that may arise in connection with the implementation of its lending policy. A record should be kept of each of these disputed cases and the decision should be communicated to all the designated parties within the lender's organisation.

External Disclosure – The revenues from lending activity should be disclosed separately to the portfolio's or the fund's beneficiaries. If the jurisdiction is one in which voting must be disclosed to beneficiaries, lenders should also disclose when shares were not voted because they were out on loan.

Lending Agents – The obligations of any agent charged with conducting lending activity on behalf of a primary lender are normally set out in a contract. It is important that primary lenders ensure contracts are worded so as to incorporate the maintenance of best practice, including, where appropriate, the terms and conditions of the Master Lending Agreement. Ultimate responsibility for maintaining best practice in lending policy is the duty of the primary lender.

B. Borrower's Responsibilities

Recall of Borrowed Shares – Borrowers should agree to return equivalent shares to those borrowed promptly upon the lender's request whether these are in the borrower's possession or more likely must be purchased in the market. All properly executed requests for recall must be treated as equally valid.

Non-Voting of Borrowed Shares – It is never good practice for borrowers to exercise voting rights with respect to shares they have borrowed, except in the rare circumstances where they are acting pursuant to the lender's specific instructions. This limitation is not binding upon a subsequent *bona fide* purchaser of borrowed shares.

Special Terms of Agreement – Borrowers should comply with any additional terms agreed with the lender and should, to the extent possible, communicate these terms to other parties on whose behalf they are carrying out the borrowing.

Accountability and Prevention of Abuses – When borrowing shares for a third party client, borrowers should use their best efforts to ensure that the principals on whose behalf they are acting understand that they are supposed to comply with best practice, as set forth in this Code.

C. Recommended Actions for Issuers to Ameliorate the Effects of Lending

Timely Notice of Shareholder Meetings and Other Transactions – Issuers should publish and distribute a Notice of Meeting, Agenda and other disclosure documents in sufficient time for lenders and borrowers of shares to comply with their policies and best practices as set forth in this document, including public notice of the issues well before any significantly advanced record date.

Separation of Record Dates for Dividend Payments and Shareholder Meetings – To minimise the effect of share lending for dividend swaps* upon shareholder participation and share voting, issuers should not set dividend record dates less than 30 days in advance of a shareholder meeting or record date (whichever is relevant for voting) nor less than 15 days after the shareholder meeting (or record date).

Tabulation – Issuers have a duty of care in their record keeping and administration of shareholder voting to identify and expose abuses in the voting of borrowed shares and to prevent double voting of shares. If the custodians' practice of using commingled accounts interferes with that responsibility, issuers have a duty to call public attention to the problem, and to work with custodians to ameliorate it wherever practicable.

Appendix II

Guidance on Best Practices Associated with the Responsibilities of Primary Lenders, Lending Agents, and Borrowers

1 *Voting and share lending*.

1.1 The voting right is normally inseparable from the share in which it inheres.

1.2 Accordingly, except in the rare case in which some private treaty provides for the separation of voting right from the share (and this is permitted by the issuer and by any applicable law), the primary lender of a share loses its voting right for that share. Until and unless a recall is executed, and an equivalent share is delivered to the lender, they are disenfranchised with respect to that share.

1.3 Any subsequent bona fide purchaser of that share, whether its ownership come as a result of purchase of a share sold short* by the borrower, or of delivery in lieu of a failed settlement,* acquires the voting right together with all the other indicia of ownership. As a matter of market practice, they will have no idea that their share had formerly been borrowed from someone else. As far as the issuer is concerned, the share has changed hands.

1.4 With respect to ownership rights, the initial borrower is in a different position than any subsequent owner to whom the shares are sold, as the initial borrower knows that the shares were borrowed, and that it retains rights over the collateral* posted in lieu of payment.

2 *Improper Lending Practices.*

2.1 The borrowing of shares for the primary purpose of exerting influence or gaining control of a company without sharing the risks of ownership is a violation of best practice. Similarly, the borrowing of shares in order to deliberately reduce or suppress the vote at a shareholders' meeting is bad practice.

2.2 Accordingly, the borrowing of shares for the purpose of exercising the right of the shareholder's vote is to be discouraged by all lenders.

2.3 The borrower of a share, for whatever purpose, should not vote that share without the express permission of the lender, and in accordance with his instructions.

2.4 Similarly, the holder of a share as collateral should not vote that share, unless specifically given the exclusive right to do so by private treaty with the borrower who provided the collateral.

2.5 The lender's Master Lending Agreement should specify that shares are not being lent for the principal purpose of voting those shares, and should provide clear guidance as to what circumstances might permit a borrower to vote borrowed shares as well as what the responsibilities of any lending agents might be in those circumstances.

2.6 No lender or lending agent should knowingly enter into a scheme in which it is making shares available to a borrower for the primary purpose of voting them, or of otherwise attempting to exert control upon the issuing company by means of the voting right attached to the borrowed shares.

3 *Lending policy, lending contracts, transparency, and disclosure.*

3.1 Policy on lending, and in what circumstances lending is to be considered subordinate to voting, should be a responsibility of the trustees or the directors of the fund or portfolio from which shares are to be lent.

3.1.1 A written statement of the lending policy should be communicated to any other entities up and down the chain of ownership which might have any reason to become involved with lending or voting decisions.

3.1.2 The lending policy statement should also be made available to the ultimate beneficiaries of the portfolio or fund. This document should make clear under what general circumstances loans are likely to be recalled for voting purposes, and the approximate extent of loan activity envisioned.

3.2 The lending contract should be negotiated with the full knowledge and active participation of the primary lender of the securities if the lending is to be done by an agent. Any subsequent changes to the contract or other departures from standard practice should be discussed beforehand with the primary lender or its manager responsible for the shares in question.

3.3 It is recommended that lenders rely upon a contract which protects their rights and provides full compensation or damages with respect to all corporate actions, as well as allowing for recall in the event of a vote the lender deems controversial and appropriate for recall.

3.4 In the event of failure to deliver like shares when they have been recalled for the purpose of voting, the penalties should be the same as for failure to deliver for any other reason.

4 *Communication of lending activity.*

4.1 It should be incumbent upon whoever is responsible for actual lending—whether it be a division of the primary manager, the primary manager's custodian, or any other agent of the primary manager or the holding chain—to update the data on any lending activity and on attendant changes in the relevant portfolio. This data should be furnished to all those personnel responsible for management of that portfolio, and to those responsible for voting decisions and for the implementation of corporate governance policy.

4.2 Such data should be made available in a timely fashion, normally by the close of business each day.

4.3 If responsibility for portfolio management and/or voting decisions has been delegated by the primary manager to another agent not in the chain of control between the primary manager and the lending agent, a separate chain of communication should be set up, and the lending agent required to inform directly this entity (or these entities) of lending activity and changes in the composition of the portfolio resulting therefrom.

5 *Communication regarding proxy material, record or blocking dates, and decision dates.*

5.1 The following personnel are potentially in need of information regarding meeting agendas and dates, the text of proposals, key decision dates, and parameters for any proxy vote or other corporate action which might trigger a recall:

(a) The portfolio manager directly responsible for buy and sell decisions concerning the stock in question
(b) Whoever is responsible for proxy voting decisions regarding the same security
(c) The party responsible for implementing corporate governance policy
(d) The principal manager of the fund involved if different from above.

5.2 Primary lenders should ensure that the proper mechanisms for timely dissemination of this information are in place, so that all of these key decision makers are informed sufficiently ahead of decision deadlines that they may make appropriate judgments in accordance with their particular mandates. This may require some sort of routine distribution of communications from the custodian, and/or from other services.

6 *Resolution of disputes involving recall.*

6.1 The Primary Lender's Policy Statement, as well as the Master Lending Agreement, should prescribe a formal mechanism to resolve any dispute arising from a difference of opinion as to whether a given share should be left out on loan or recalled.

6.2 Such a dispute-resolving mechanism should fairly represent the different perspectives of investment managers, corporate governance staff, and the exigencies of lending.

6.3 Decisions should be made in accordance with the primary lender's stated lending policy, its governance policy, and the explicit objectives of the fund. The object is to resolve the conflict between short-term revenue maximization and longer-term investment or governance goals.

6.4 The decisions of the resolving mechanism should be a matter of record to be communicated to those responsible for setting and enforcing corporate governance policy at the primary lender or its manager.

7 *Record dates.*

7.1 Record dates pose a special challenge to the lender of securities, as they may be significantly divorced in time from the date of the actual vote.

7.2 In those jurisdictions in which it has been the practice for the issuer to publish and distribute proxy material and the agenda of the shareholders' meeting only after the record date and only to shareholders of record on that date, it may be difficult or impossible for lenders to know whether they might want to recall shares for voting in advance of the record date.

7.2.1 To circumvent this conundrum, issuers should promulgate the agenda for upcoming shareholders' meetings publicly (e.g., by posting at the company's website) sufficiently in advance of the record date that lenders may have time to recall should they decide to do so. This is in keeping with the "Issuer's Recommended Actions" delineated in Appendix I. C. above.

7.2.2 In the absence of such provision by issuers, lending institutions in those jurisdictions can only make reasonable efforts to learn whether an upcoming shareholder vote is likely to be sufficiently controversial under their own voting guidelines that they should consider recalling the relevant share in advance of the record date.

7.2.3 Absent resources for such information gathering, it may be impossible for lenders to pursue a policy of recalling lent shares 'in the event of an important or controversial vote.'

7.3 When the record date or its functional equivalent is near in time to the shareholders' meeting, and the agenda has already been distributed some time before, this problem does not arise.

8 *Dividend dates.*

8.1 Another common use of lending is for dividend swaps. For this strategy to be employed, the share must be lent over a dividend record date. Obviously, the lender loses the vote over that period, which may coincide with the meeting date, or the record date for voting in a record date jurisdiction.

8.2 Lending institutions should be aware of this hidden consequence of such a lending transaction.

8.3 Issuers are also urged to separate dividend record dates sufficiently from voting record dates or whatever other dates are ruling for eligibility to vote (e.g., reconciliation date, the date of the meeting, etc.), so that transactions of this type do not reduce the valid shareholder vote, or confuse the question of who is the proper beneficial owner entitled to vote.

9 *Lending policy and risk.*

9.1 By lending shares, a portfolio's risk characteristics may be changed significantly. Normally, the standard contracts and practices in use successfully counter that possibility, but exceptions may exist.

9.2 In those markets in which the lender's margins are determined or affected by the reinvestment of the collateral required for the loan, additional assessments of risk are necessary, and additional controls may be warranted to ensure that lending agents do not exceed the risk parameters appropriate for that portfolio.

10 *Disclosure of lending activity.*

10.1 As a general matter, lending activity is not reported to outside parties or to individual fund beneficiaries, except where provided for by contract or by law.

10.2 However, the net income obtained from lending ought to be separately accounted for in regular reports to beneficiaries, since it is neither appropriate to regard it as a part of investment return, nor should it be allowed to conceal the actual costs of custody, transfer, and other administrative costs, or the costs attendant upon the actual lending program itself.

10.3 Additionally, in any public report on voting decisions made during the preceding year, the instances in which shares were not voted because they were out on loan, and the resultant ‘under-vote’ of shares, by percentage or by actual number, ought to be disclosed to beneficiaries of the reporting funds.

Appendix III

Definitions

Mechanics of lending:
A **stock loan** is any transaction in which the owner of a share or his or her authorised agent transfers control and use of the security to a counter-party, the borrower, in exchange for an agreement for a similar share to be delivered to him or her at a future date, normally with further agreement with the borrower to be made whole for the equivalent of any distributions made to the shareholders in the interim. Although legally different, a stock loan somewhat resembles a sale and repurchase agreement. Unlike a sale and repurchase agreement, however, the borrower usually deposits collateral with the lender normally worth 102% to 105% of the value of the lent securities. Also unlike a sale and repurchase, the rights of the lender with respect to this collateral may be greatly limited.

Collateral for the loan may be either cash or securities, or a combination of the two. It is sometimes the case that the return the lender expects to obtain from the collateral for the duration of the loan is the lender's margin of profit on the transaction. In these cases, the use put to the collateral may alter the risk characteristics of the portfolio from which shares have been lent. The collateral is normally adjusted on at least a daily basis to compensate for fluctuations in the market price of the share.

Recall of a securities loan can normally be initiated by the original lender at any time, on varying terms and within a time frame depending upon the lending contract. 'Recall' is also normally a misnomer, as most of the time equivalent shares to those loaned will have to be purchased in the market to satisfy the recall. At the same time, the borrower's collateral must be returned; thus, the whole lending transaction is unwound upon recall.

Parties to a lending transaction:
The **lender** of a security is the party, whether the beneficial owner, its agent, or a whole hierarchy of agents appointed to exercise control over beneficial owners' investments, which surrenders control of the share in exchange for specific agreements to be made whole at some (usually indefinite) future date. The **primary lender** of this same security is the beneficial owner of that security authorising the lending of it, or the most senior agent of those individuals who are collectively beneficial owners of that security. The **lending agent** is a party other than the beneficial owner or primary lender which is charged with effecting loans on behalf of the primary lender.

The **ownership chain** is the totality of the structure (which may be very complex, especially in the case of cross-border investments) of the fiduciaries, trustees, principal managers, sub-managers, custodians, sub-custodians, nominees, proxy agents, and other entities ultimately

responsible for the management, administration, custody, voting, and lending of an ultimate beneficiary's securities, and responsible, directly or indirectly, to that ultimate beneficiary. Not all of these agents are necessarily a part of the same hierarchy; e.g., there may be separate chains for custody and for portfolio management, both reporting to a principal manager or fund higher up in the chain.

The **principal manager** is that party highest in the ownership chain which is authorised to make portfolio management decisions on behalf of the beneficial owner(s). Often the principal manager is authorised to make voting decisions and sometimes to set governance policy as well. The principal manager may or may not be the same as the primary lender.

The **borrower** of the security is the party entering into the agreement which takes receipt of the borrowed stock. The borrower may be a principal borrowing for its own account, or be acting on behalf of a client; more often it is the latter.

The **registered owner** or **owner of record** is the shareowner whose name appears on the books of the company as entitled to vote shares and to receive dividends. When a share has been sold short in the market, or has been tendered in lieu of a fail, the new *bona fide* purchaser becomes the owner of record, in place of the lender. Thus, during the period of a loan, the lender will not be the owner of record, and cannot vote those shares.

Uses of lending:

Short selling is the practice by which a borrower of stock hopes to profit from a decline in the price per share by selling borrowed shares in the market, and repurchasing equivalent shares subsequently for delivery back to the lender at a lower price. Short selling may also be employed as part of a hedging strategy, in which the seller is merely trying to protect itself against the risk of loss from a share price decline. In either case, an essential part of this strategy is the borrowing of shares.

Hypothecation is the practice in which a securities market intermediary deposits liquid securities in a special blocked account in order to meet a regulatory requirement with respect to the ratio of securities held as a percentage of the total obligations of that intermediary. This is another common reason for borrowing shares.

A **fail** is the industry term for the situation in which a securities intermediary cannot deliver securities to the counter-party purchaser in a valid trade. This is yet another important reason for borrowing shares.

Dividend swaps are employed when an investor cannot take advantage of tax benefits which may accrue to another, or cannot use investment opportunities (such as a scrip dividend alternative) more valuable to another investor, and decides to lend the shares to a borrower for whom the dividend is more valuable. Thus, both share in the benefit.