Introduction to Securities Borrowing, Lending and Short Selling

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Contents

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An illustration of the applicable risk rating of the product has been provided to guide the investors on the possible risk rating of the product. The following is a legend for the risk rating. Within each section, the possible ratings which the product may have are shaded in red.

1 2 3 4 5

Product Risk Rating

Risk Level	Explanation
1	Very low level of risk with potentially limited returns
2	Low to Medium level of risk with low volatility and expecting below average to average level of returns
3	Medium level of risks with medium level of volatility and expecting average expected returns
4	Medium to high level of risk and volatility and with high variance in the returns
5	High level of risk and volatility with a very high variance in returns

2. Securities Short selling and Borrowing

1 2 3 4 5

Product Risk Rating

2.1 Short selling securities

Short selling of securities is the sale of securities that the seller does not own at the time of the sale. Short selling may either be 'covered' or 'uncovered' (the latter is also referred to as 'naked' short selling). In 'covered' short selling, at the time of the sale, the seller has borrowed the securities or has otherwise made arrangements to fulfil his obligation to deliver the securities. In 'uncovered' or 'naked' short selling, at the time of the sale, the seller is not in possession of securities or has not otherwise made arrangements to meet his delivery obligation.

Short selling of a security is usually motivated by the seller's view that the price of the security will decline and the seller will eventually be able to purchase the security back at a lower price.

Different markets have different short selling regulations. Some markets prohibit uncovered or naked short selling, which means that short sellers need to borrow securities before they can execute short sales in the securities. Nomura only offers covered short selling.

2.2 Features of securities borrowing

When a client borrows a security from Nomura Singapore Limited (the "Lender"), the client will obtain title to the loaned security from the Lender and enjoy the voting and property rights to the security during the tenor of the borrowing contract. However, if any interest, dividends or other distributions of any kind whatsoever ("Income") is paid by the issuer with respect to the borrowed securities during the tenor of the loan, the client is required to make substitution payments of the Income to the Lender. Where Income, in the form of securities, is paid by the issuer with respect to the borrowed securities, such securities shall, if the Lender in its sole discretion so determines, be added to the borrowed securities and will not be delivered by the client to the Lender until the end of the loan, provided that the client furnishes sufficient collateral in respect of the additional securities borrowed.

Upon the termination of the loan, the client will have to return the loaned securities to the Lender. Lending fees payable by the client will be calculated based on the daily value of the loaned security.

The client is required to provide and maintain collateral and charged assets with the Lender at the stipulated margin levels, throughout the trade, in order for the client to borrow securities from the Lender.

The client would have to provide two types of collateral:
1) SBL Collateral and
2) Specified Collateral

The aggregate value of the Posted SBL Collateral to be provided and maintained shall be equal to or more than the Required SBL Collateral Value, which is a percentage of the aggregate Value of the loaned securities. The aggregate value of the Specified Collateral to be provided and maintained shall be equal to or more than the Required Charge Value, which is a percentage of the aggregate value of the loaned securities and all other Liabilities of the client to the Lender (if any). Both the Required SBL Collateral Value and the Required Charge Value shall be determined by the Lender in its sole and absolute discretion from time to time.

In the event that the value of the aggregate Posted SBL Collateral falls below the Required SBL Collateral Value and/or in the event that the value of the Specified Collateral falls below the Required Charge Value, the Lender may require the client to regularize the situation intraday. The Lender may also demand immediate return of the loaned securities. Alternatively, the Lender may also sell the Posted SBL Collateral and/or Specified Collateral and use the sale proceeds to buy such amounts of loaned securities as determined by the Lender and treat them as securities returned by the client.

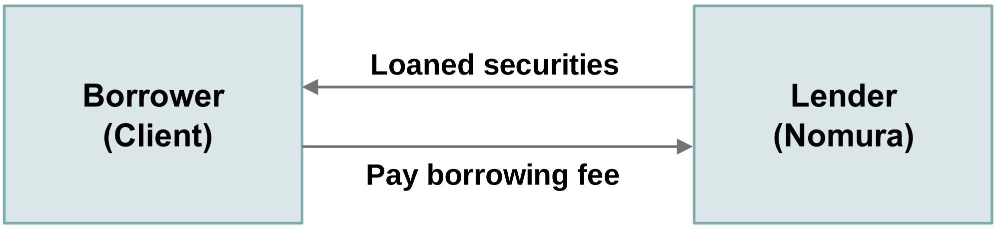

Figure 1: illustration of a securities borrow transaction

Borrowing fees are indicated on a per annum basis and calculated based on the daily mark-to-market value of the security. Borrowing fees are settled on a monthly basis between the borrower (client) and the Lender.

2.3 Client Profile

- The client has a negative view on the securities and believes that the securities' price will decline, enabling the client to purchase it back at a lower price in the future.
- The client has a very high risk appetite and understands that the potential losses on a short sale are unlimited.
- The client is a Professional Investor as defined under the Securities and Futures Ordinance of Hong Kong or Accredited Investor as defined under the Securities and Futures Act of Singapore.

2.4 Key Risks

Market Risk: If the price of the securities short-sold by the client rises in value, the client will incur losses on the short-sale. The quantum of losses to be incurred by the client can rise indefinitely with an increase in price of the short-sold securities.

Leverage Risk: Clients may enter the transaction on a margin basis, or utilizing the Lender's credit facilities. As such, clients would be bound by the terms of the Lender's credit facilities, including the requirements to make top up payments or meet margin and collateral calls which can be substantial in poor market conditions. Such leveraged activities have specific risks as described in General Product Introductory Material - Section 11 "Introduction to Leveraged Portfolios". It is important for the client to understand such risks before entering into leveraged transactions. Clients would need to take note of the requirements to transfer collateral and/or charged assets to the Lender which may be substantial if the price of the underlying security rises indefinitely.

Potential losses: In the event that a client needs to provide more SBL Collateral in the form of cash, but does not have it in the currencies acceptable to the Lender, the client may need to enter into an FX transaction to convert his cash in other currencies, or liquidate some assets, which might cause client to incur some losses.

Risk of recall: The Lender may recall the lent securities from the client at any time. If the client does not have such securities in his possession at the time of recall, the client will have to either borrow additional securities or to purchase securities in the market in order to return the borrowed securities to the Lender. If the price of the securities has increased since the start date of the loan, the client will incur losses in procuring securities to return to the Lender.

Currency risk: The market value of the loaned securities could increase due to FX movement, and depending on the currency of the Posted SBL Collateral and Specified Collateral provided, the client may need to deliver more SBL Collateral and/or provide more Specified Collateral, to secure the increased exposure.

Margin call risk: The Lender has the discretion to increase or change the percentage of the Required SBL Collateral Value and the Required Charge Value at any time, at its sole discretion. Such increase or change may result in the Posted SBL Collateral and/or Specified Collateral that has been provided by the client becoming insufficient, thereby resulting in a margin-call situation.

Price risk: In the case of small cap stock with limited liquidity, sudden news announcement may cause a share price to spike. Should lender recall the share, client needs to secure the shares to return to the lender, which results in more "buy" orders in a market and further spike in the share price.

2.5 Example

The client would like to short sell Security A in the market and initiates a borrow contract before short selling the stock in the market.

2.5.1 Initiation of a borrow contract

Client decides to borrow Security A from the Lender.

Equities

300,000	**Security A ISIN: XYZ000111222**
Trade Date	4 Jan 2020
Settlement Date	7Jan 2020
Start Date of Borrow	7 Jan 2020
End date of Borrow	Open-End
Borrowing Fee (per annum)	3.00% of daily market value
Amount borrowed (MTM)	$1,000,000 (as at Settlement Date)
Amount of SBL Collateral Required	$1,050,000 (as at Settlement Date) (105% as illustration)
Amount of Specified Collateral Required	$1,500,000 (as at Settlement Date) (150% as illustration)

The quantity and the name of the security is defined as above

Trade Date is the date on which the client makes a borrowing request from the Lender.

Settlement Date is the actual date of delivery of securities from the Lender to the client's account where the rights, title and interest in the security are transferred to the client

Start Date of Borrow is the date where the rights, title and interest of the security are transferred to the client from the Lender. It is typically concurrent with the Settlement Date. Borrowing fees start to accrue from the Start Date.

End Date of Borrow is the date where the rights, title and interest of the securities are returned to the Lender by the client. For open-ended borrows, the Lender and the client are permitted to request or effect the return of the security by giving notice to the other party.

Borrowing Fee is the agreed borrowing fee to be paid by the client to the Lender for the security borrowing. Borrowing fees will accrue from the start date to the end date of the loan.

The borrowing fee on a daily basis is calculated as [Daily price] * [Quantity] * [Lending fee] * [1/day count]. The total borrowing fee over the tenor will be the sum of each daily calculation. The fee will be settled on a monthly basis.

The client is required to provide and maintain sufficient SBL Collateral and Specified Collateral with the Lender for the entire duration of the loan.

2.5.2 Return of securities and Fee calculation

The client returns the security after 63 days.

300,000	**Security A ISIN: XYZ000111222**
Trade Date	7 Mar 2020
Settlement Date	10 Mar 2020
Start Date of Borrow	8 Jan 2020
End date of Borrow	10 Mar 2020
Borrowing Fee (per annum)	3.00% of daily market value
Number of days	63
Average daily price	$10
Total Borrowing fee	$15,750.00

0

The quantity and the name of the security are defined as above.

Trade Date is the date on which the client decides to return the securities to the Lender.

Settlement Date is the actual date of delivery of securities from the client's account to the Lender where the rights, title and interest in the security are transferred back to Nomura.

End Date of the Borrow is the date where the rights, title and interest of the security are returned to the Lender from the client.

The Borrowing fee on a daily basis is calculated as [Daily price] * [Quantity] * Borrowing fee] * [1/day count]. The total Borrowing fee over the tenor will be the sum of each daily calculation.

The price of the security may fluctuate during the tenor of the Borrow. Fee calculation is based on the daily mark-to-market value of the security. For illustration purpose, we assume that the average of the share price during the entire tenor is $10.

As a result, the total Borrowing fee will be as follows

$10 * 300,000 * 3.00% * 63/360 = $15,750.00

2.5.3 Collateral Requirement

As security for the client's obligations to return the borrowed securities, the client is required to
1) deliver collateral to the Lender ("Posted SBL Collateral") which SBL Collateral Value must be equivalent or higher than the Required SBL Collateral Value <u>and</u>
2) maintain charged assets ("Specified Collateral") which Specified Collateral Value must be equivalent or higher than the Required Charge Value.

Required SBL Collateral Value, SBL Collateral value, Required Charge Value and Specified Collateral Value are determined by the Lender and are subject to change at the Lender's absolute discretion.

Assuming that the Lender requires the client to post Posted SBL Collateral of a value not less than 105% of the aggregate value of the borrowed securities ("Required SBL Collateral Value"), the client will need to deliver cash which will be maintained in its account to cover this requirement. Depending on the quality of the assets provided as Posted SBL Collateral, a larger deduction or hair-cut for valuation process will be made by the bank. Note that some currencies may not be eligible to be treated as SBL Collateral.

Assuming that the Lender requires the client to provide Specified Collateral of a value not less than 150% of the aggregate value of the borrowed securities ("Required Charge Value"), the client would need to ensure that the value of assets charged to the Lender meet or exceed the Required Charge Value. Depending on the quality of the assets provided as Specified Collateral, a larger deduction or hair-cut for valuation process will be made by the Lender.

As an illustration, the borrowing of 100,000 shares of a stock with a previous day close of business price of $10 will lead to:

- Required SBL Collateral Value of: $1,050,000
- Required Charge Value of: $1,500,000

In the event that the value of the aggregate Posted SBL Collateral falls below the Required SBL Collateral Value and/or in the event that the value of the Specified Collateral falls below the Required Charge Value, the Lender may require the client to regularize the situation intraday. The Lender may also demand immediate return of the loaned securities. Alternatively, the Lender may also sell the Posted SBL Collateral and/or Specified Collateral and use the sale proceeds to buy such amounts of loaned securities as determined by the Lender and treat them as securities returned by the client.

2.5.4 Scenario analysis of the short sell

Assume that the client would close the short sell before returning the securities to the Lender. Please find below a scenario analysis of the potential profit or loss of the short-sell position. Note that the losses may be potentially infinite as the share price may keep increasing. Assume that the price of the borrowed shares was $10 at the start of the loan ("Initial Price") and the quantity of shares shorted was 50,000.

The analysis presented below (the "Analysis") is provided for illustrative purposes only. The Analysis does not purport to show all possible scenarios or outcomes. It is not intended to suggest that any outcome is more likely than another, and it does not include all possible outcomes or the range of possible outcomes. The illustration does not take into account transaction fees, stock borrowing fees and dividend payments.

Final Price (as % of initial price)	Final Price	P&L ($)	Required SBL Collateral Value ($)	Required Charge Value ($)
200%	20	-500,000	1,050,000	1,500,000
150%	15	-250,000	787,500	1,125,000
125%	12.5	-125,000	656,250	937,500
110%	11	-50,000	577,500	825,000
100%	10	0	525,000	750,000
90%	9	50,000	472,500	675,000
80%	8	100,000	420,000	600,000
25%	2.5	375,000	131,250	187,500

3. Securities Lending

1 2 3 4 5

Product Risk Rating

3.1 Description

Securities lending is the temporary transfer of securities from a Lender to a Borrower with an absolute transfer of title. Instead of leaving the securities unused in the safekeeping accounts, the Lender (client) agrees to make available the securities they have to the Borrower (Nomura) in exchange for fees.

Borrowers of such securities may short-sell such securities in the market.

3.2 Features of Securities Lending

When a lending contract is conducted, clients will relinquish title of the loaned security to Nomura. During the tenor of the loan, the client continues to enjoy dividends and coupons in the form of substitution payment. However, the client will lose voting and property rights and will have to recall the loaned security in a timely manner to exercise voting rights at an AGM or certain other corporate actions. During the life of the loan, the market risk of the loaned security will continue to be borne by the client. Upon a termination of the loan, the client will be entitled to receive the securities of the same type, quantity and quality, i.e. Equivalent Securities as the securities that were loaned to Nomura. The lending fees will be calculated based on the daily value of the loaned security. There are typically two forms of lending, an open loan and a term loan.

3.2.1 Open Lending

Securities lending can be conducted on an ‘open lending’ basis when a lender has agreed upfront that the borrower can borrow the lender’s securities at any time in its sole discretion. By signing the Securities Borrowing and Lending Agreement, the lender (client) agrees that Nomura can borrow the client’s securities on an open lending basis. Nomura is then able to borrow the client’s securities by debiting from the client’s account, and such loaned securities shall be deemed to have been delivered by the client to Nomura.

Nomura is not required to provide the client any SBL collateral during the tenor of the lending contract. Client will be notified post-trade that their securities have been borrowed by Nomura. The lender (client) has the right to exclude certain securities in its portfolio by giving the bank at least five business days written notice. The client also has the right to recall the securities at any time and Nomura has to deliver such securities within the standard settlement time.

Where a client has made available his securities to Nomura on an open lending basis, the client retains the right and ability to deal freely with his securities as if they have not been lent out. However, the client may have to take additional steps before such rights can be exercised. For example, the client would have to recall the securities and terminate the loan before the client can exercise voting rights under the securities. For less liquid securities, there may be difficulty to source the securities for recall within a short period of time.

The number of securities that would be borrowed from the client by Nomura under an open loan would be determined by Nomura in its sole discretion without prior notice to the client.

Typically, securities borrowed on an open lending basis will be borrowed for a minimum of 7 days. However, this does not affect the right of the lender to recall the securities at any time.

3.2.2 Term Lending

Securities lending can also be conducted on a ‘term loan’ basis. Where the lender (client) lends securities to the borrower (Nomura) under a term loan, the terms of each loan shall be agreed prior to the commencement of the relevant Loan. Such terms include the tenor or length of the loan, the fees to be paid by Nomura to the client and early termination fees (if applicable) should the loan be terminated before its maturity date.

Unlike where securities are lent on an open lending basis, the client would not be able to deal as freely with securities that have been lent on a term loan basis. This is because the client may not be able to recall the securities during the tenor of the term loan unless a termination clause has been built into the terms of the loan. Even if the client has a contractual right to terminate the term loan before its maturity, early termination fees may apply.

Lending fees are indicated on a per annum basis and calculated based on the daily mark-to-market value of the security. Lending fees are settled on a monthly basis between Nomura and the client.

See section 3.5 for an illustration of the securities loan.

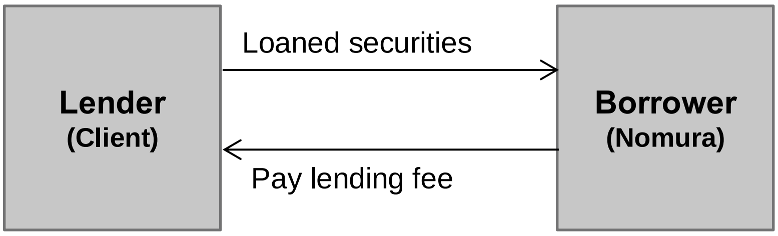

Figure 1: Illustration of a securities loan transaction

3.3 Client Profile

- The client is seeking an additional income on his securities holdings instead of leaving them unused in their safekeeping account.
- Clients who lend their securities on a term loan basis do not intend to exercise any rights under the loaned securities nor sell them during the tenor of the loan
- Professional Investor as defined under the Securities and Futures Ordinance of Hong Kong or Accredited Investor defined under the Securities and Futures Act of Singapore is eligible.
- Clients who are substantial shareholders should take note of any reporting requirements for change in ownership of shares. For instance, in Hong Kong, shares which are lent out in a SBL arrangement constitutes a change in ownership and may result in a need to report such changes in their ownership.

3.4 Key Risks

Credit Risk: The client would be subject to the risks of the borrower (i.e. Nomura), including but not limited to failure by such borrower to make good, valid or timely delivery or payment to clients. Should the borrower declare bankruptcy, the client would lose the right to the return of the loaned security and will only have a financial claim to the corresponding amount.

Liquidity Risk: In the case of the term loan, there can be no assurance that the security can be recalled in a timely fashion prior to the expiration of the term loan.

Market Risk: The borrowing of securities may short-sell the securities in the market, which may result in adverse changes in the prices of the securities.

3.5 Example

For the examples below in section 3.5.1 and 3.5.2, the following are the definition of terms:

The quantity and the name of the security is defined as per the examples listed below

Trade Date is the date in which Nomura decides to borrow the securities from the client

Settlement Date is the actual date of delivery of securities from the client's account to Nomura where the rights, title and interest in the security are transferred to Nomura

Start date of the Loan is the date where the rights, title and interest of the security are transferred to Nomura. It is typically concurrent with the Settlement Date. Lending fees start to accrue from the start date.

End Date of the Loan is the date where the rights, title and interest of the security are returned to the client from Nomura. For open-ended loans, Nomura and client are permitted to return or request the return of the security by giving notice to Nomura. For a term loan, the end date will be specified at the start of the contract.

Lending Fee is the agreed lending fee for the security loan. Lending fees will accrue from the start date to the end date of the loan.

Day Count refers to the calculation basis for the number of days. In this example, the number of days in a year is assumed to be 360 and the actual number of days is counted.

The Equities lending fee on a daily basis is calculated as [Daily price] * [Quantity] * [Lending fee] * [1/day count]. The total lending fee over the tenor will be the sum of each daily calculation.

The Bonds lending fee on a daily basis is calculated as [Loan start date price] * [Quantity] * [Lending fee] * [1/day count]. The total lending fee over the tenor will be the sum of each daily calculation.

The termination fee will be the termination fee that will be applicable on the remaining days of the loan should the term loan be terminated prior to the end date of the loan.

3.5.1 Initiation of an open loan

Nomura decides to borrow Security B from lender (client).

1,000,000	**Security B**
	ISIN: XYZ123456789
Trade Date	4 Jan 2020
Settlement Date	7Jan 2020
Start Date of Loan	8 Jan 2020
End date of Loan	Open-End
Lending Fee	0.50% p.a. of daily market value (equities) or loan start market value (bonds)
Day Count	Actual / 360

Note that for open-ended loans, the client is permitted to request the return of the security by giving notice to Nomura.

3.5.2 Initiation of a term loan

Nomura decides to borrow Security B from lender (client) for a fixed term or tenor.

1,000,000	**Security B**
	ISIN: XYZ123456789
Trade Date	4 Jan 2020
Settlement Date	7Jan 2020
Start Date of Loan	8 Jan 2020

End date of Loan	10 Mar 2020
Lending Fee	0.50% p.a. of daily market value
Day Count	Actual / 360
Termination Fee	2%

Note that for a term loan, the end date will be specified at the start of the contract.

If either Nomura or the client terminates the Loan before the End Date of the term loan, the party terminating the loan would have to pay the other party an Early Termination Fee. The Early Termination Fee is calculated as follows:

Termination fee (in % per annum) x market value x remaining no. of days/day count.

3.5.3 Return of securities and Fee calculation

Nomura returns the security after 63 days without any early termination.

1,000,000	**Security B**
	ISIN: XYZ123456789
Trade Date	7 Mar 2020
Settlement Date	10 Mar 2020
Start Date of Loan	8 Jan 2020
End date of Loan	10 Mar 2020
Lending Fee (per annum)	0.50% of daily market value
Number of days	63
Average daily price	101.00%
Total Lending fee	$883.75

The quantity and the name of the security are defined as above.

Trade Date is the date in which Nomura decides to return the securities to the client.

Settlement Date is the actual date of delivery of securities from Nomura to the client's account where the rights, title and interest in the security are transferred to the client.

As mentioned above, the Start date of the Loan is the date where the rights, title and interest of the security are transferred to Nomura. It is reiterated here to reflect the full tenor of the loan. Lending fees start to accrue from the start date.

End Date of the Loan is the date where the rights, title and interest of the security are returned to the client from Nomura.

Lending Fee is the agreed lending fee for the security loan. Lending fees will accrue from the start date to the end date of the loan.

The Bonds lending fee on a daily basis is calculated as [Loan start date price] * [Quantity] * [Lending fee] * [1/day count]. The total lending fee over the tenor will be the sum of each daily calculation.

The price of the security may fluctuate during the tenor of the loan. Fee calculation is based on the daily mark-to-market value of the security. For illustration purpose, we assume that the average of the security price during the entire tenor is 101.00%

As a result, the total lending fee will be as follows: 101.00% * 1,000,000 * 0.50% * 63/360 = $883.75

Disclaimer