Stronger by design:

Securities lending in a new era

BlackRock

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Executive summary

Institutional investors are increasingly leveraging securities lending as a strategic tool to offset investment management fees and related expenses, such as administrative and custody costs. Within BlackRock's securities lending program, we have observed renewed interest from clients who exited the market following the Global Financial Crisis ("GFC"). This trend is particularly pronounced among institutional asset owners in passively managed strategies, where cost efficiency and benchmark tracking have become increasingly important.

Today's securities lending ecosystem is markedly improved. Regulatory reforms and agent lender transformation have reshaped the market, delivering lower investor risk, enhanced transparency, and expanded lending opportunities across a broader range of products. These developments help enable asset owners to seek securities lending alpha while reducing costs.

Opting out of lending is no longer a risk-neutralization decision but rather an opportunity cost for these clients.

Key considerations for clients include:

1. Reducing overall investment management costs
2. Generating incremental returns through lending
3. Improving benchmark tracking

Beyond direct lending return potential, clients value ancillary benefits such as lower management fees, reduced transaction and custody costs, and access to seasoned funds with established track records.

BlackRock currently manages $7.5[1] trillion in lendable assets and offers both lending and non-lending collective funds to align with client preferences. However, demand is overwhelmingly concentrated in lending strategies, which account for over 98%[1] of flows.

This paper explores the structural improvements driving client confidence and examines how the market has navigated recent shocks and risk events.

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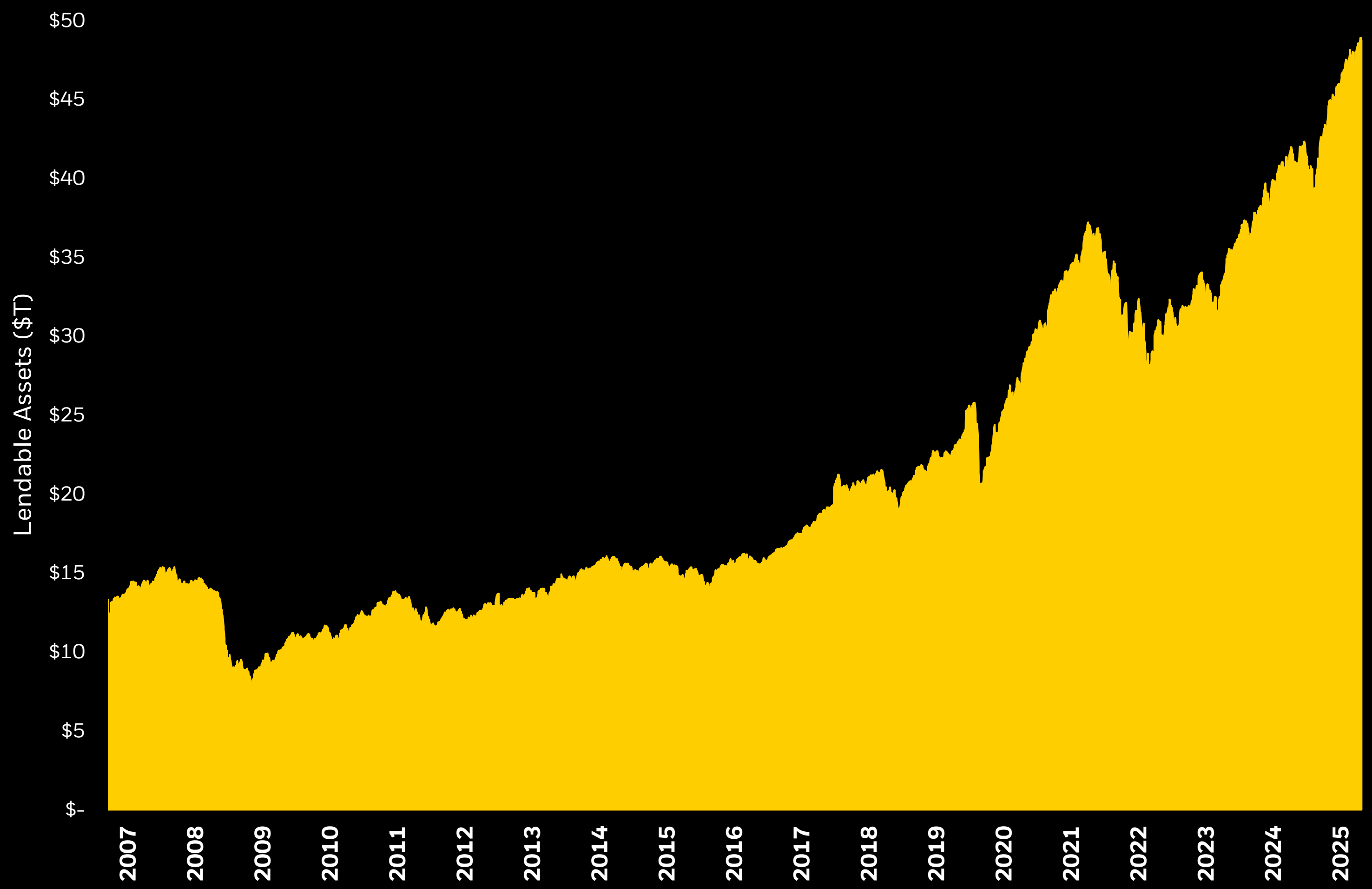
1: BlackRock; As of 12/31/2025. Strategies include global ETFs, mutual funds and U.S. and Canadian domiciled collective investments

Securities lending basics

Securities lending is a widespread, long-standing practice, spanning geographies, asset types and participants, where the owner of securities temporarily transfers them to a borrower in exchange for collateral. $3.1 trillion[2] of assets are on loan on an average day, offering potential benefits to lenders, borrowers and capital markets.

Growth of lendable assets[3]

In the period directly following the GFC, equity lenders exited the market, but lendable assets returned to pre-crisis levels shortly after. In recent years, lendable assets have continued to grow.



Sources: 2: S&P Global; As of 12/31/2025 3: S&P Global; 7/1/2007 - 12/31/2025 investments

How securities lending works

Securities **lenders** are typically large asset owners such as pension plans, sovereign wealth funds, corporations and endowments, as well as managers of mutual funds, exchange traded funds ("ETFs") and other pooled investment funds. A **lending agent** such as a custodian bank, asset manager or other third party often acts on behalf of the lender.

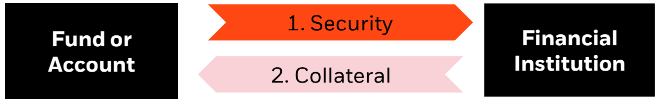
The **borrowers (counterparties)** are large financial institutions, which often further lend the borrowed assets to their own clients, such as hedge funds and other financial institutions. In exchange for the loan, borrowers must provide collateral[4] to the lender. The collateral is marked-to-market daily. The borrower negotiates the financial terms of the lending transaction with the lending agent acting on behalf of the lending fund or account[5]. The borrower will pay the lender the equivalent of any distributions[6] generated by the security. In addition to the collateralization of loan transactions, there are usually several basic lender protections built into securities lending programs[7].

The most common form of collateral in the U.S. market is cash, which is generally reinvested in very liquid, high-quality money market or other liquidity funds to seek incremental return or reduce costs for the lender. Potential gains, whether from the lending activity or the collateral reinvestment, are split between the lender and lending agent at an agreed-upon rate.

Initiating the loan:

1. A large financial institution asks to borrow a security from a fund or account. The fund or account asks for collateral, which can be either cash or non-cash, to secure the loan.

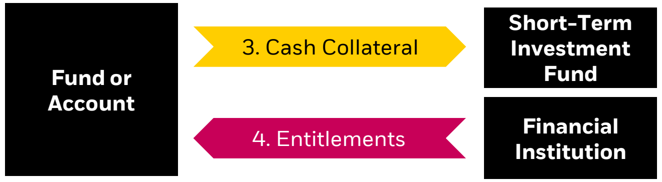
2. Once collateral is received, the fund or account (the lender) lends the stock or bond to the financial institution (the borrower).



While the security is out on loan:

3. Cash collateral is invested in low-risk, short-term investment funds; non-cash is held by the fund or account or with a tri-party collateral manager. All securities are marked-to-market daily as part of ongoing risk management.

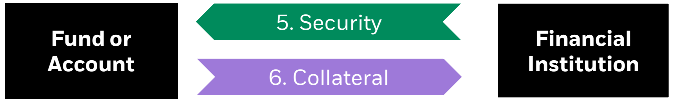
4. If a securities pays a dividend or another distribution while on-loan, the borrower will pay the lender what it would have received if the fund or account had been holding the security.



Completing the process:

5. Upon termination of the loan, the financial institution must return the security back to the fund or account.

6. Upon receipt of the lent securities, the fund or account then releases the collateral back to the financial institution to close out the process



For illustrative purposes only. Unless otherwise noted, source for all information is BlackRock. 4. Collateral is generally at a minimum of 102% of the loaned securities value. 5. Generally, the fee to borrow is higher the more sought-after the security. 6. Such as bond interest payments or stock dividends. 7. Lender protections typically include certain limits on how much of a fund's assets may be loaned at one time, the right to recall or terminate a loan at any time, retention of all economics and benefits earned from the security during the loan period (i.e. dividend and coupon payments), and restrictions on who may serve as lending agent.

Why the market exists

Lenders and borrowers utilize securities lending for different purposes. For lenders, this is a way for them to unlock additional value from securities that they own, typically in long-only passively managed portfolios.

While in some cases, the borrower is making a bet on the value of the securities they are borrowing decreasing, **it is widely accepted that securities lending causes financial markets to see increased liquidity and reduced trading costs[8].**

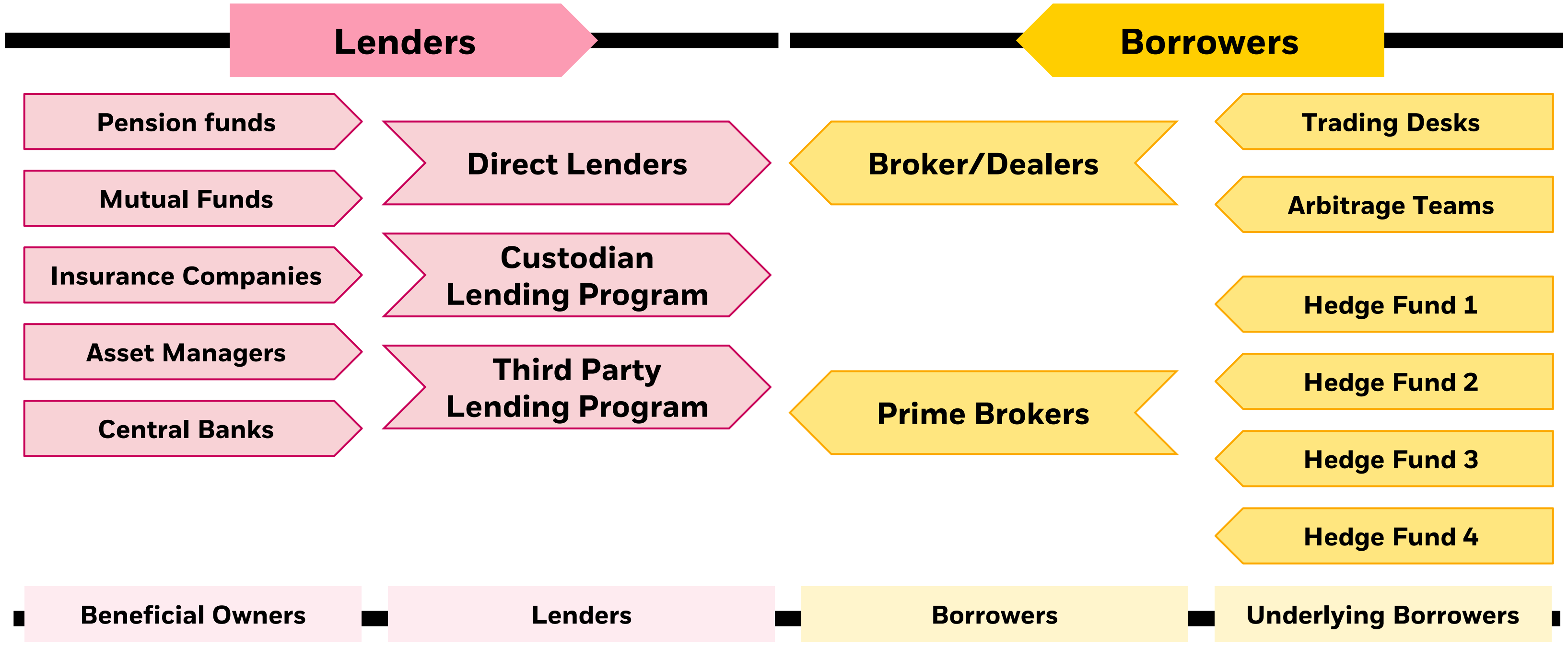
8. Federal Reserve Bank of New York Staff Report no. 518, 'Market Declines: Is Banning Short Selling the Solution?' September 2011

Borrowers have a wide range of use cases for participating in lending transactions:

Facilitating broker-dealer functions

Broker-dealers leverage securities lending as a crucial tool for facilitating settlement. Dealers can borrow securities to cover fails. When a broker-dealer sells securities that they do not immediately have available, they can borrow those securities through securities lending to meet their delivery obligations to the buyer. This helps prevent “fails to deliver,” which can disrupt the settlement process and potentially lead to penalties.

Market participants and sources of borrower demand



This allows for broker-dealers to act as market makers, continuously providing buy and sell quotes for securities, regardless of their inventory.

Implementing active bets

Securities lending can be used by investors to implement active bets within their portfolios. Investors may borrow a security and sell it, hoping to buy it back at a lower price later upon return to the lender, profiting from a decline in the price. Similarly, investors may borrow a security to arbitrage between small price differences between markets. In this case, they are simultaneously buying and selling the same or similar security across different markets.

Hedging strategies for investors

Hedge funds and other investors may utilize securities lending to hedge long positions where they anticipate a potential price decline. Short selling can help to hedge against losses in their long positions.

Understanding the Risks

From an investor's perspective, there are two primary risks in securities lending:

- The potential for borrower (counterparty) default
- Potential losses in the reinvestment of cash collateral

Borrower Default Risk

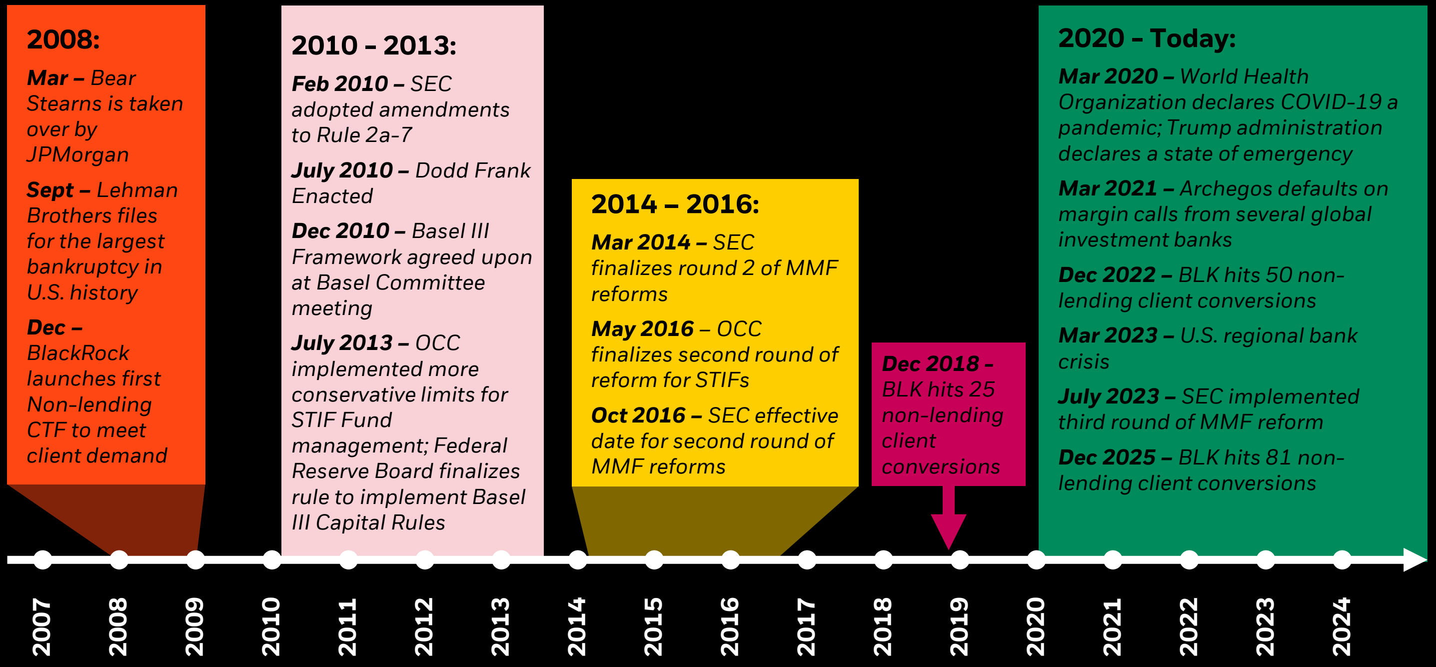
Securities lending involves the risk that the borrower may default, including by failing to return the securities in a timely manner, or at all.

The risk of a borrower default can be mitigated by limiting trading to the most creditworthy counterparties and maintaining sufficient collateral in excess of the value of securities loans.

Cash Collateral Reinvestment Risk

When a fund or account receives cash as collateral, it is generally invested in a highly conservative money market-like portfolio. For example, at BlackRock, U.S. domiciled mutual funds and private bank collective trusts utilize either an SEC[9] registered 2a-7 money market fund or an OCC[10] regulated short-term investment fund ("STIF"). This reinvestment of cash collateral exposes the lender to various investment risks and a potential loss of principal[11].

A timeline of events shaping the reform in the securities lending market



The bottom line:

While both risks are important to understand, **it was the reinvestment of cash collateral that led to the majority of real or perceived issues that investors experienced in the lending market during the 2008 GFC period.**

The timeline is for illustrative purposes only. It serves as a general summary and is not exhaustive. 9. "SEC" refers to the Securities Exchange Commission; 10. "OCC" refers to the Office of the Comptroller of the Currency; 11. These risks include market, liquidity, and credit risks. Market risk is the potential for losses due to changing prices. Liquidity risk is the possibility that securities or instruments in which the cash is invested become difficult to sell or can only be sold at discounted prices. Credit risk is the potential that securities or instruments in which the cash is invested default or sell at discounted prices due to changes in credit quality.

The GFC experience(s)

Even though large financial institutions were facing a crisis of confidence and heightened solvency risk during the GFC, the risk of lenders losing money due to a securities lending borrower default was quite small. The only significant borrower to default was Lehman Brothers[12]. **At BlackRock, no client experienced losses due to Lehman's borrower default event.** Anecdotally, we have seen no evidence that any securities lending clients across the industry lost money because of Lehman defaulting on their securities lending transactions. This leads us to believe that lenders had more than enough collateral from Lehman to repurchase lent securities.

12. The Federal Reserve Bank of New York's list of Primary Dealers.

There were asset owners that experienced negative events such as gating and even principal losses as a result of their cash collateral reinvestment programs, which was the primary source of issues in the lending market during the GFC. The trouble arose in the "bubble" era preceding the crisis, when some lenders relaxed credit and liquidity standards. Instead of maintaining ample overnight and other short-term liquidity and reinvesting solely in high-quality money market instruments with lower volatility, they directed their cash collateral investments to higher yielding but riskier instruments[13]. Even high-quality money market paper, such as tier 1 commercial paper[14], became difficult to sell at fair value, amplifying the problem for those money market investors who became forced sellers due to insufficient sources of liquidity within their funds.

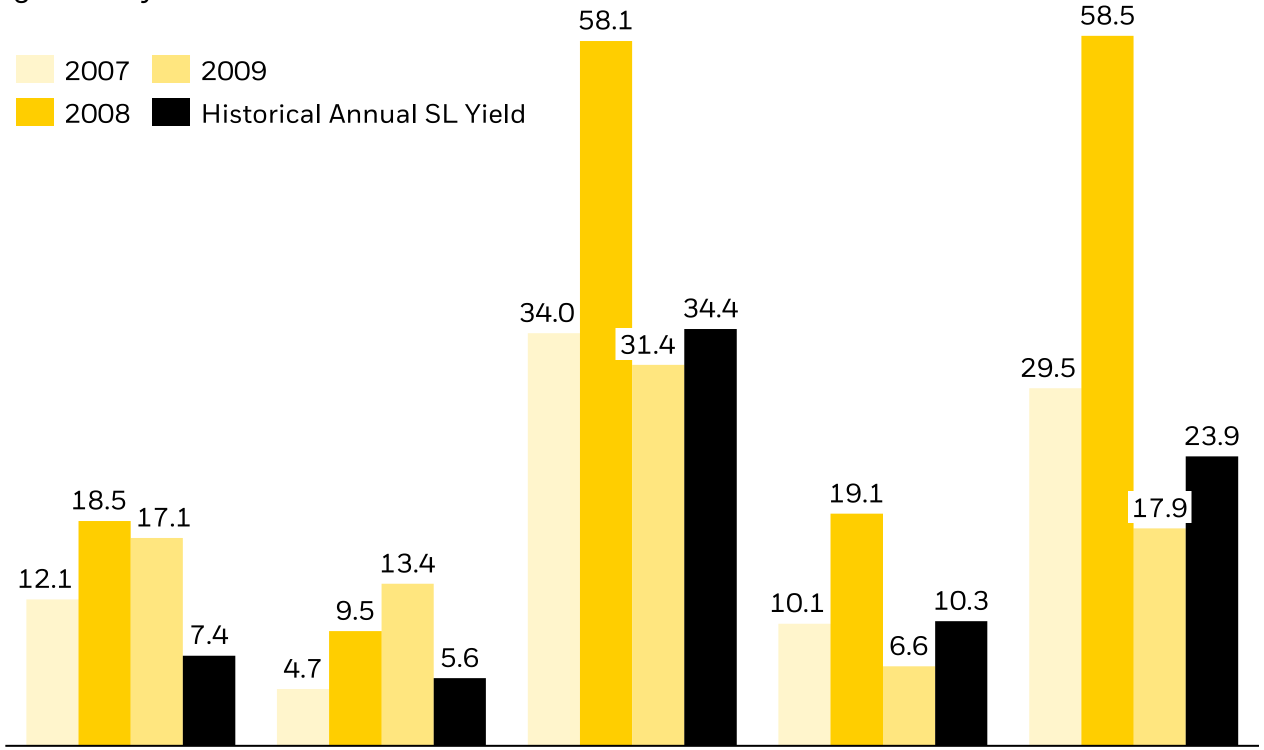
When the markets collapsed in 2008, many of these riskier securities experienced steep losses – which were ultimately passed to clients in some cases. Some of these clients who experienced gating or even suffered losses made a fundamental decision to move out of lending funds as a result.

At BlackRock

While the market certainly experienced losses during the crisis, 2007, 2008 and 2009 were record years from a return perspective for many of the clients participating in BlackRock's Securities Lending program[15].

BlackRock securities lending yields for sample funds[15]

Reflecting gross SL yields for CY 2007, 2008 and 2009 vs. historical annual gross SL yield



13: Riskier instruments refers to longer-duration asset-backed securities, structured investment vehicles and lower quality unsecured credit. 14: Tier 1 commercial paper refers to short-term debt instruments that receive the highest credit ratings from major rating agencies. Specifically, Moody's assigns "P-1", S&P assigns "A-1+" or "A-1", and Fitch assigns "F-1+" or "F-1" to denote first-tier status, indicating a strong capacity to meet short-term obligations. 15: Source: BlackRock; Historical Annual SL yield returns reflect the annual gross SL yield for the period 1/1/2007-12/31/2025. **The performance quoted represents past performance and does not guarantee future results.**

Reform post-crisis

The financial crisis brought a heightened scrutiny to securities lending practices by policy makers globally. The silver lining to this challenging period is that global regulators and the banking and investment management industries coalesced to address and vastly reduced these risks. Post-crisis regulation brought transformative, market-stabilizing changes that fundamentally changed the way the financial system operates, and investors reap the benefits of them today. Regulatory overhaul did not just make the system safer; it made the system smarter in our view.

For securities lending investors, this means the two core risks that they are exposed to within a securities lending transaction are effectively reduced[16]. Borrowers they are exposed to should be better capitalized under Basel III and Dodd-Frank, and more stringent regulations for money market investors have resulted in more conservative cash collateral reinvestment parameters.

Safer counterparties

After the crisis, global regulators recognized the need for banks to hold more, and better-quality, capital. The Dodd-Frank Wall Street Reform and Consumer Protection Act was passed by U.S. Congress in 2010. This piece of financial reform legislation requires banks and broker-dealers to hold more capital, maintain greater liquidity, and reduce overall leverage, reducing capitalization risk.

Additionally, under Dodd-Frank, the Financial Stability Oversight Council ("FSOC") was established to monitor systemic risk within major financial institutions, including securities lending activities. The SEC adopted rules aiming to increase securities lending market transparency[17].

While Dodd-Frank introduces robust domestic safeguards, Basel III creates a consistent international standard on bank capital. Basel III introduces higher-quality capital requirements, liquidity ratios, and additional measures intended to assess the soundness of systemically important financial institutions ("SIFIs")[18].

The combination of global and domestic regulation resulted in making securities lending counterparties more creditworthy and reduces the risks that impacted counterparties during the GFC.

More conservative collateral reinvestment

Money market reform refers to the SEC's regulatory changes aimed at enhancing the stability, transparency and liquidity of money market mutual funds. These reforms are designed to reduce the risk of investor runs during periods of market stress and ensure that money market funds can better withstand rapid redemptions. There have been three distinct rounds of money market reform.

16: This refers to the risk of borrower default and cash collateral reinvestment risk. **For more information, please see page 8.** 17: Congress.gov. Dodd-Frank Wall Street Reform and Consumer Protection Act. July 21, 2010. 18: Basel Committee on Banking Supervision. Basel III: A global regulatory framework for more resilient banks and banking systems. June 1, 2011.

Financial reform from the SEC and OCC has been presented in three phases. Both the SEC and OCC waves of reform were designed to ensure cash reinvestment funds meet their objectives of capital preservation, which is core to ensuring a functioning lending market.

As a result of these reforms and safeguards, many investors have begun to re-engage in lending activity.

1

Phase 1: 2009 – 2013

The SEC amended Rule 2a-7, focusing on increased transparency and reducing risk within money market funds. The Financial Stability Board ("FSB") set 13 policy recommendations to address shadow banking risks. This included the recommendations to implement minimum standards for cash collateral reinvestment in order to reduce liquidity risk, improve regulatory reporting, and implement minimum standards to collateral valuation and management[19].

2

Phase 2: 2014 – 2016

In an era causing concern about the structural vulnerability of cash funds, the SEC adopted a second round with more comprehensive U.S. reforms[20]. This round reinforced liquidity requirements on a daily and weekly basis. The OCC implemented requirements for STIFs as part of money market reform, including more stringent liquidity requirements for STIFs. The OCC also requires more frequent portfolio reporting to ensure transparency and accountability.

3

Phase 3: 2020 – Present

Driven by the March 2020/COVID-19 liquidity crisis, this round of money market reform, finalized in 2024, enforces stricter liquidity requirements to ensure faster access to cash in stressed markets[21].

19: U.S. Securities and Exchange Commission. Money Market Fund Reform. June 30, 2009. 20: U.S. Securities and Exchange Commission. SEC Adopts Money Market Fund Reform Rules. July 23, 2014. 21: U.S. Securities and Exchange Commission. Money Market Fund Reforms. July 12, 2023.

A return to lending

Rotation Away

At BlackRock, in the period directly following the GFC, we saw an increased demand from prospective clients for non-lending vehicles, most notably from U.S. defined contribution plans. The participant-driven nature of DC plans requires daily liquidity. Both the financial losses incurred during the crisis, and the loss of liquidity through gating, resulted in some of these plans facing litigation. Litigation pertaining to securities lending ultimately drove a number of these plans to move into non-lending vehicles.

As a result, in December of 2008, BlackRock launched its first non-lending collective index fund. It is important to note that many clients did not withdraw from lending in the same way that U.S. defined contribution plans did post-crisis. At BlackRock the vast majority, over 95% of the passive assets we manage, are participating in BlackRock's securities lending program. Globally, most ETFs and mutual funds participate in securities lending.

Post MMF Reform

Post the first round of money market reform in 2012, BlackRock began to see revival in conversations with clients looking to transition back into lending funds. Comforted by the new regulatory framework, clients began due diligence processes, and some opted to enable lending within their portfolios. At the same time, the emphasis on cost reduction and need for incremental return shifted the scale for many clients and their consultants to reconsider lending. Instead of the decision not to lend being a risk neutralization decision, it is now an opportunity cost for clients and their portfolios.

At BlackRock, pooled vehicles participating in lending are oftentimes able to be offered at a reduced investment management fee. Our clients view income from lending as a way to partially, and in some cases completely, offset the investment management fees for their passive investments.

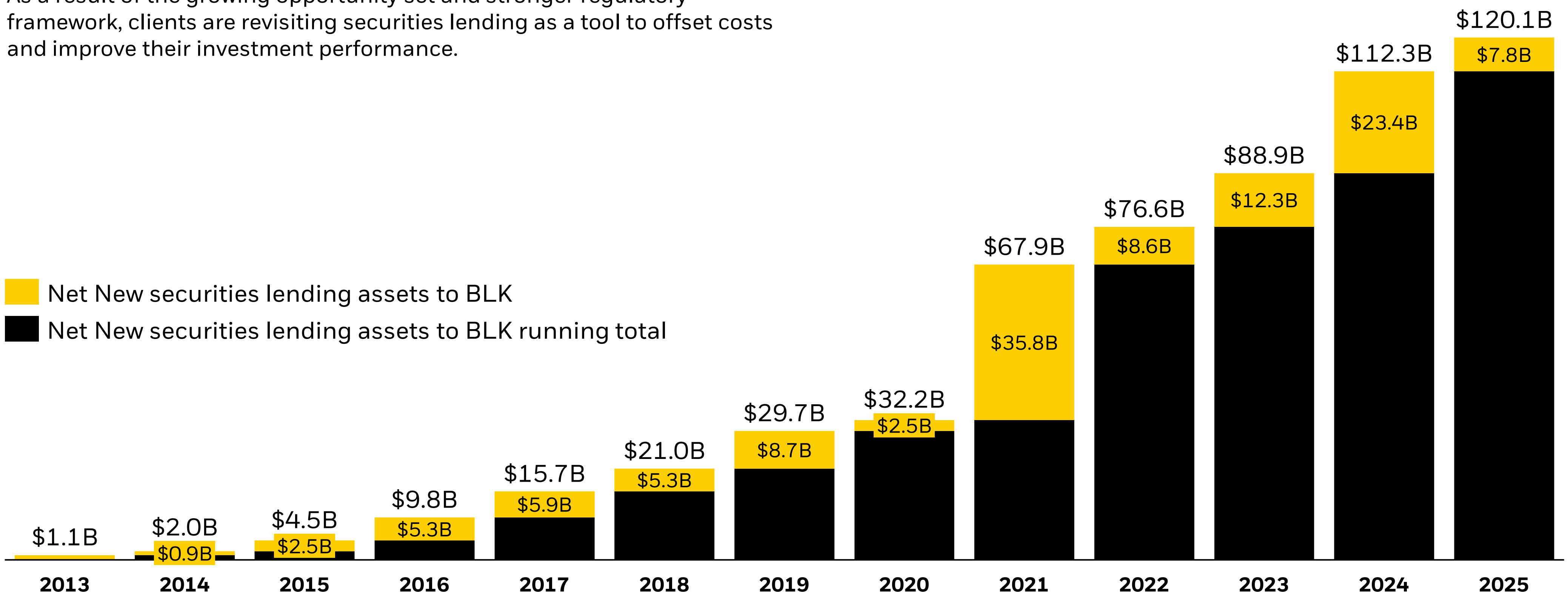
Re-engagement

Since then, this trend has only continued to pick up momentum.

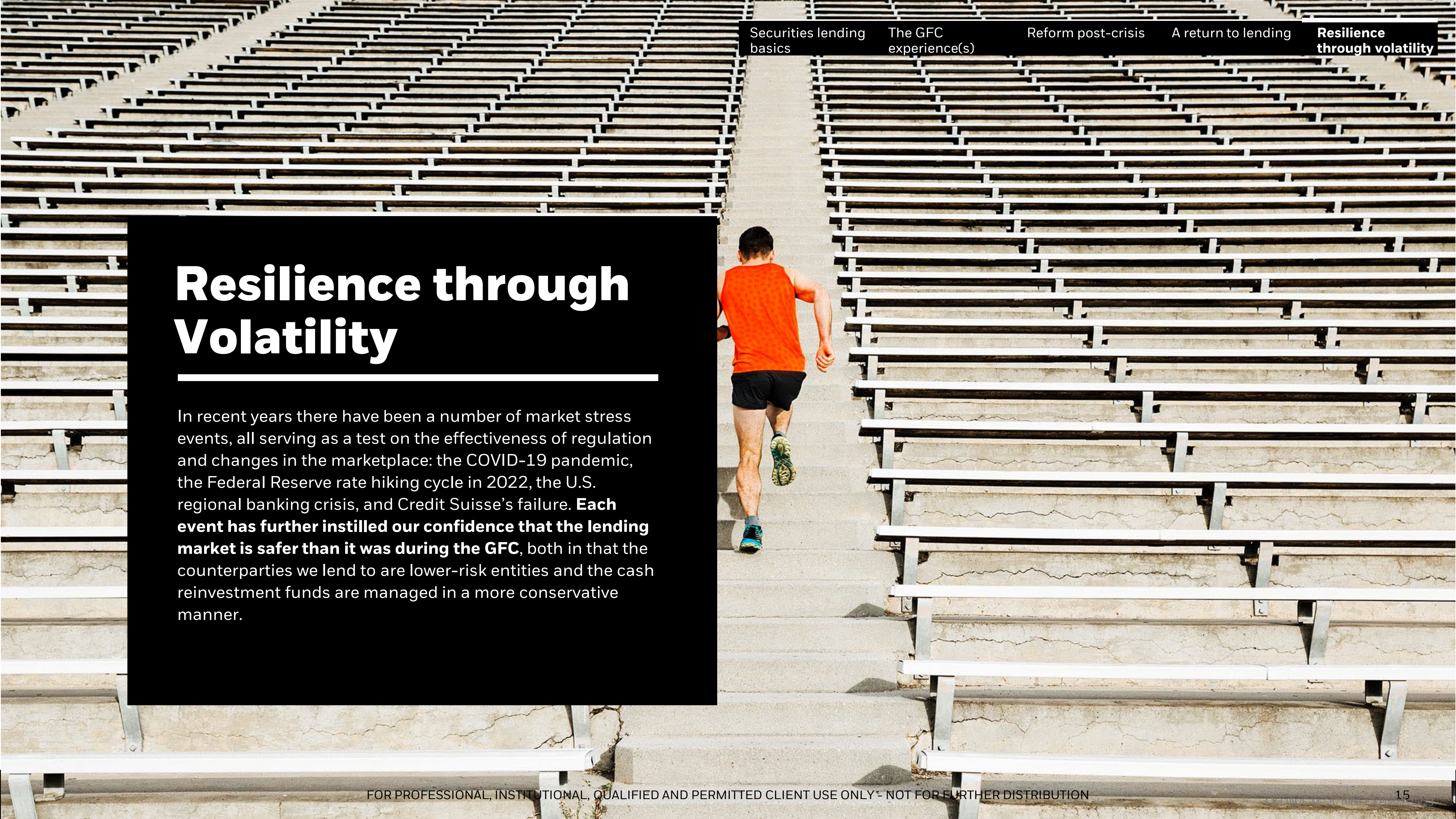
Non-Lending conversions through the years[22]

The revived interest in securities lending comes from a wide cross-section of investors: defined benefit and defined contribution plans, insurance companies, endowments and foundations, Taft-Hartley plans, and the consultant community.

As a result of the growing opportunity set and stronger regulatory framework, clients are revisiting securities lending as a tool to offset costs and improve their investment performance.



22: BlackRock; as of 12/31/2025. AUM shown is at time of conversion and does not reflect any market movements.



Resilience through Volatility

In recent years there have been a number of market stress events, all serving as a test on the effectiveness of regulation and changes in the marketplace: the COVID-19 pandemic, the Federal Reserve rate hiking cycle in 2022, the U.S. regional banking crisis, and Credit Suisse's failure. **Each event has further instilled our confidence that the lending market is safer than it was during the GFC**, both in that the counterparties we lend to are lower-risk entities and the cash reinvestment funds are managed in a more conservative manner.

COVID-19 Pandemic

At the beginning of the COVID-19 pandemic, global markets experienced heightened volatility beginning in March of 2020. While the scale of financial market volatility was reminiscent of the 2008 financial crisis, this time, the lending market functioned well and kept generating income for investors throughout the volatile period of March and April of 2020, as well as the rest of the year.

During this period there were no major banks that experienced defaults related to solvency issues or significant liquidity challenges. While bank Credit Default Swap (“CDS”) spreads moved higher, it was to a much less extent than 2008 and CDS spreads began to narrow very quickly in the beginning of April 2020.

Regulators like the Federal Reserve reacted to the heightened volatility in a timely and effective manner, which further provided liquidity and confidence in the market.

2022 Fed Rate Hiking Cycle & 2023 Regional Banking Crisis

In 2022, the Federal Reserve embarked on the most aggressive rate hiking cycle experienced since the 1980s, totaling over 500 bps to combat persistent inflation.

This policy impacted markets, notably increasing volatility in the stock market. The bond market saw declines in existing bond values sparking instability within the regional banking sector. Ultimately three large regional banks failed as a result of the rising interest rates and loss of depositor confidence: Silicon Valley Bank ("SVB"), Signature Bank and First Republic Bank.

Amid the crisis, the Federal Deposit Insurance Corporation ("FDIC"), Federal Reserve and Treasury worked in tandem to implement emergency measures[23] to prevent contagion within the banking sector. Additionally, regulators facilitated the sale of First Republic Bank to JPMorgan Chase.

23: "Emergency measures" refers to the FDIC, Federal Reserve, and Treasury offering full deposit protection for all deposits at SVB and Signature Bank, including deposits over the $250,000 FDIC limit and introducing the Bank Term Funding Program ("BTFP") which allowed banks to borrow against their bond holdings at face value to avoid forced asset sales.

Credit Suisse Failure

In March of 2023, Swiss authorities facilitated an emergency takeover of Credit Suisse by UBS to prevent systemic contagion.

Unlike other significant bank failures, Credit Suisse's downfall was not due to a single market event but rather the culmination of years of poor risk management, eroded trust, and vulnerability exposed during the Federal Reserve rate hiking cycle and the subsequent 2023 regional banking crisis.

The start of Credit Suisse's failure can be traced back to 2021 when the bank suffered losses as a result of risk management failures. Following that, a string of executive departures and internal dysfunction undermined the trust in the bank's leadership. Credit Suisse posted consistent losses and struggled to generate returns for investors. Questions around the bank's stability led to significant client withdrawals – over $100B in the fourth quarter of 2022[24].

At the same time, the regional banking crisis and collapse of SVB and Signature Bank triggered panic across financial markets. Credit Suisse's already fragile state made it the target for concern causing the share price to plummet and CDS to spike.

In each event highlighted, securities lending markets continued to generate returns for investors. At BlackRock, none of the regional banks discussed were approved borrowers for the securities lending program and none of the cash collateral reinvestment STIFs had exposure to those issuers. Similarly, no money market funds "broke the buck" or reported material losses tied to Credit Suisse's failure.

24: Source: Morningstar, 'Credit Suisse Admits Financial Control Weaknesses in Delayed Annual Report' March 2023

Frequently Asked Questions

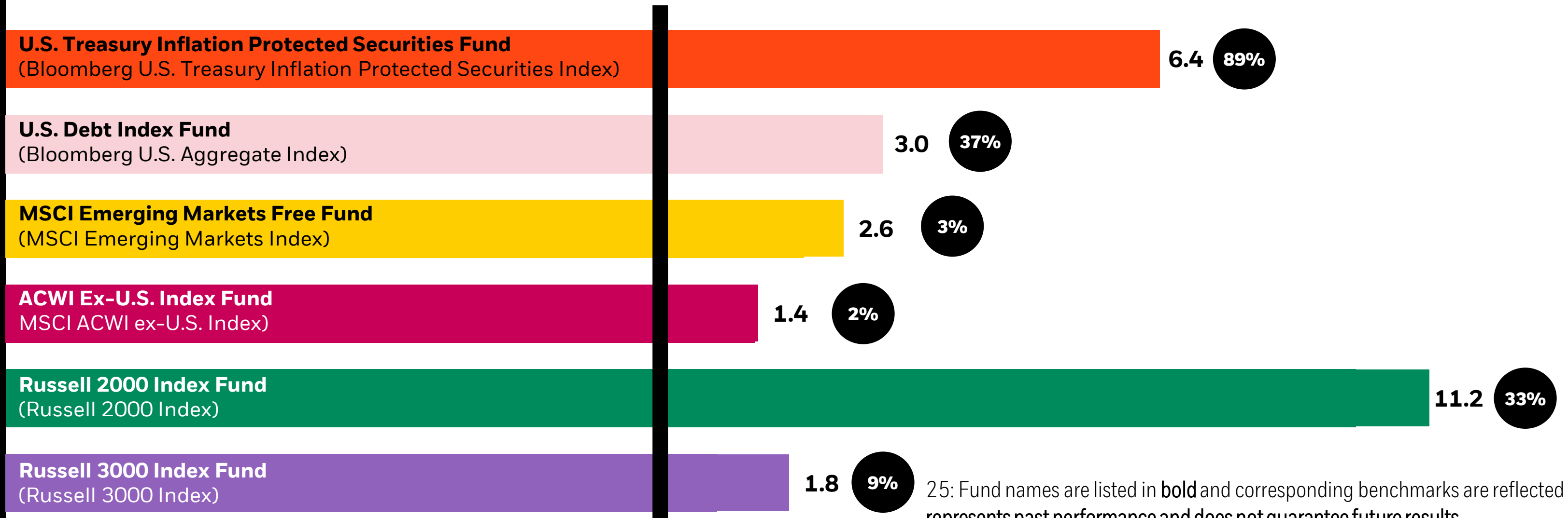
What drives securities lending performance?

Securities lending performance is a function of the demand to borrower securities and the return generated from the reinvestment of cash collateral. This demand is typically driven by highly in-demand assets, or specials. An asset is considered special if the demand to borrow the asset is greater than the supply. Several reasons can cause an asset to be considered special. Common reasons include, but are not limited to, highly generated short interest, or unusual market activity on a particular asset.

Special names are typically more difficult to borrow than general collateral, or GC. General collateral assets are securities that are more easily available to borrow, like U.S. Treasuries.

In the chart below you will see the range in returns across a sample of BlackRock funds.

Average 5-YR net fund[25] yields[26] (annualized bps) and Utilization (%) as of 12/31/2025



25: Fund names are listed in **bold** and corresponding benchmarks are reflected in parentheses below for each fund. 26: **The performance quoted represents past performance and does not guarantee future results.**

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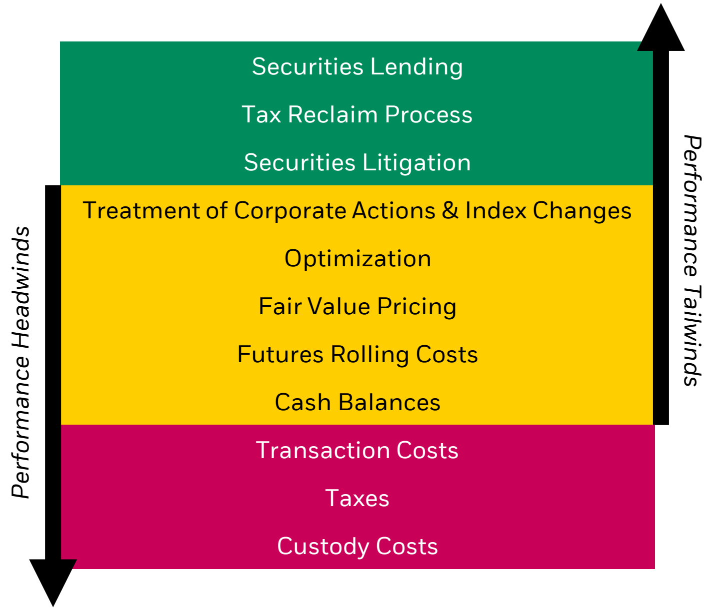
How does securities lending income offset costs?

Many clients and consultants view securities lending as a tool to offset investment management fees and other costs for their plans. In addition to the lending income that is generated from participating in securities lending, there are potential ancillary benefits to investing in lending funds.

At BlackRock, lending funds are generally larger and have longer track records than the equivalent non-lending fund. Larger funds with more diverse unit holder bases tend to have more opportunities to net with other client flows which can lead to lower transaction costs. Administrative costs, such as custody costs, tend to be lower in these larger funds as well.

Beyond reduction in costs, clients can benefit from participating in more seasoned funds which have a longer track record, particularly when it comes to securities litigation payments and the depth of index replication.

While the above factors are additive to fund performance, much of them sit outside of portfolio manager control. Securities lending remains one of the few tools in our toolkit to deliver strong benchmark tracking for our clients.



What types of investors participate in securities lending?

Interest in securities lending is being driven by a diverse range of investors, including defined benefit and defined contribution plans, mutual funds and ETFs, insurance companies, as well as endowments and foundations. Many institutional investors participate in securities lending, and almost all mutual funds and ETFs are involved in securities lending activities.

What is the maximum percentage of assets that can be on loan?

For BlackRock's U.S. Collective Trust Funds, up to 100% of the fund's net assets can be on loan unless otherwise set forth in the fund's investment guidelines. In practice, many funds lend significantly less than that amount.

U.S. Mutual Funds and ETFs may lend up to 33% of the total assets of a fund, according to SEC 1940 Act guidelines. Similar to U.S. CTFs, many of BlackRock's mutual funds and ETFs lend significantly less than that amount.

Has there ever been a borrower default in BlackRock's program history? How well prepared is BlackRock if it happens again?

Since the inception of BlackRock's lending program in 1981, only three borrowers with active loans have defaulted. In each instance, BlackRock successfully repurchased every security on loan using the collateral posted by the borrower, ensuring no losses to our clients. BlackRock's integrated technology platform and experienced team of professionals, who focus on all aspects of markets, trading, and liquidity, position us strongly to manage collateral in the rare event of a borrower default. Additionally, our securities lending operations, portfolio management, and trading teams regularly assess our readiness to respond to a borrower default using various tools, including borrower default simulations conducted annually.

How does securities lending benefit financial markets?

Securities Lending plays a crucial role in financial markets by providing liquidity and enabling investment strategies like short selling and hedging. This in turn facilitates trading, lowers transaction costs and helps mitigate volatility. Institutional investors, such as pension funds can boost returns by lending securities, while borrowers, including hedge funds and broker-dealers, use these securities for risk management strategies. Regulatory bodies, like the SEC, oversee securities lending to ensure transparency and mitigate risks. As of December 31, 2025, approximately $48.7 trillion in securities were available for lending, with $3.1 trillion of those securities on loan from a lender's perspective[25]. Although often linked to short sales, which some critics argue pose a risk to market stability, the Federal Reserve has found that short sales can enhance market stability by improving liquidity and enabling risk hedging[26].

Contributors

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25: S&P Global; As of 12/31/2025 26:Federal Reserve Bank of New York Staff Report no. 518, 'Market Declines: Is Banning Short Selling the Solution?' September 2011

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Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time and depend on personal individual circumstances.

Securities Lending

With Securities Lending there is a risk of loss should the borrower default before the securities are returned, and due to market movements, the value of collateral held has fallen and/or the value of the securities on loan has risen.

While proprietary technology platforms may help manage risk, risk cannot be eliminated. There is no guarantee that a positive investment outcome can be achieved.

IMPORTANT INFORMATION

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