

BUX

by  **ABN·AMRO**

Stock Lending Handbook

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BUX B.V. is a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid) with its statutory seat in Amsterdam, the Netherlands, registered with the Trade Register of the Dutch Chamber of Commerce in Amsterdam under number 58403949. BUX B.V. is authorised as an investment firm and supervised as such by the Dutch Authority for the Financial Markets (AFM).

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Introduction

You have become a client of BUX and explicitly given approval for the lending of Your Financial Instruments. You have also mandated BUX to facilitate the lending of Your Financial Instruments in its own name but for Your risk and Your account. This is a customary model used in the Dutch financial markets. When Your Financial Instruments will be lent, You will receive a return.

This Stock Lending Handbook (hereafter: the Handbook) explains how this works and what risks are involved. The Handbook is intended to provide explanation and is in supplement to the BUX Stock Lending Agreement. The Handbook contains relevant information which is important for You to read before becoming a client. Read the BUX Stock Lending Agreement and this Handbook carefully, therefore, and don't hesitate to contact BUX's Customer Support at support@bux.com if You have any questions.

Stock lending

When active

Stock lending is immediately active as soon as You have become a client and explicitly given approval for this. It is possible to provide your explicit approval at a later moment or to cancel Your explicit approval at any given time.

All types of Financial Instruments

Stock lending pertains to all Financial Instruments that BUX offers.

Definitions

The terms used in this Handbook have the same meaning as attributed to them in the BUX Client Agreement, unless defined otherwise below.

Legal title

BUX facilitates Lending Your Financial Instruments to a Borrower for Your risk and Your account. Your legal title to these Financial Instruments will for the duration of the loan period be transferred by BUX to the Borrower. However, you will retain the beneficial ownership of the Financial Instruments which are Lent.

Beneficial ownership

In stock lending, You retain beneficial ownership of the Financial Instruments lent. This means that You are exposed to the price risk of the Financial Instruments, whether or not the Financial Instruments are lent. The claim You have when Your Financial Instruments are Lent, which is equal to the value of the Financial Instruments Lent, will count towards the total on the annual income statement for tax purposes. You also receive a manufactured payment of dividend if Your Financial Instruments are Lent during a dividend payment. After all, You may not hold the Financial Instruments any longer, but You are still the beneficial owner.

Counterparty

BUX is mandated to act in its own name but for Your risk and Your Account towards the counterparty which borrows Your Financial Instruments. The Financial Instruments will be Lent to various financial institutions. Those financial institutions are the counterparty, with respect to which You take risk, not BUX.

How stock lending works

What it involves

Stock lending is a term for the lending of Financial Instruments. If you have given your explicit consent, the Financial Instruments in Your account may be lent to Borrowers. You mandate BUX to facilitate these lending transactions in its own name but for Your risk and Your account. As described further below, BUX has implemented a collateral structure. The Borrowers must provide collateral to BUX to secure their obligation to redeliver the relevant Financial Instruments. This collateral will be held by Stichting BUX Collateral.

Often, Stock brokers lend out financial instruments. There are various reasons why a third party might want to borrow these Financial Instruments. The most common reasons are:

- The Financial Instruments are used to hedge brief short positions;
- The Financial Instruments are used by large parties that believe they can buy the share for a cheaper price in the future by borrowing it now and selling it on.

What it means for You

As soon as You have agreed to the BUX Stock Lending Agreement, all Financial Instruments in Your portfolio can be lent. This means that:

- You can sell Your Financial Instruments, regardless of whether they are lent or not;
- You will receive the dividend, but in the form of a manufactured payment of dividend;
- The value of the Financial Instruments counts towards the total on Your annual income statement for tax purposes;
- You retain beneficial ownership of the Financial Instruments, which also means that You still run the price risk of the Financial Instruments.

Selection of Financial Instruments

We do not know in advance which Financial Instruments will be lent or when; sometimes just a part of the portfolio is lent and sometimes none of it. The market dictates the demand for the Financial Instruments; there is no certainty whatsoever whether Borrowers will indeed be lending the Financial Instruments.

Partners

BUX works with professional parties with vast experience in lending Financial Instruments. Those parties facilitate the BUX stock lending structure. As part thereof, they ensure that the Borrower provides collateral for the Financial Instruments and they monitor (on behalf of BUX) the collateral and its value.

Collateral

An allocation method is used to determine which Financial Instruments from which account holders will be lent to Borrowers. BUX will ensure that it receives collateral from those Borrowers. The collateral will be marked to market daily to 105% of the value of the financial instruments which have been lent. BUX will transfer, or will procure the transfer of, this collateral to Stichting BUX Collateral. The main reason for Stichting BUX Collateral holding this collateral is to mitigate the risk that the Borrower cannot meet its obligations towards You.

The collateral is usually extremely liquid and readily marketable; the collateral will normally consist of government bonds. The amount of collateral is adjusted daily to ensure there is always sufficient collateral.

Stichting BUX Collateral

In the event of Borrower's insolvency or other cases in which that Borrower is unable to redeliver the Financial Instruments, Stichting BUX Collateral will apply the collateral it holds, to acquire equivalent Financial Instruments. Stichting BUX Collateral will subsequently deliver those Financial Instruments to You and other Clients whose Financial Instruments have been Lent via BUX to that Borrower

Dividend

During the period that Your Financial Instruments are lent, You will receive a manufactured payment of dividend instead of a normal dividend. This is because You are no longer the legal owner, but are indeed entitled to dividends or other corporate actions. These are usually equal to the net payment of a dividend and sometimes equal to the gross dividend. With American Financial Instruments, the normal dividend tax on the dividend payment is usually withheld from a manufactured payment of dividend. For all corporate actions other than dividends, BUX will try to recover the Financial Instruments from the Borrowers so that you will be brought in the same position as would have been the case if these Financial Instruments would not have been lent for Your account.

Risks

Borrower default risk

You have mandated BUX to facilitate the lending of Your Financial Instruments for Your risk and Your account. Under this mandate, your Financial Instruments will be Lent, via BUX, to one or more third parties (Borrowers).

During the Lending period, legal title to the Lent Financial Instruments is transferred to the Borrowers. Financial Instruments which have been borrowed by a Borrower from You will not fall under the asset segregation structure of BUX. Instead, You have a claim via BUX against the Borrower for redelivery of the Financial Instruments that have been Lent. Those Borrowers must also provide collateral to BUX to secure their obligation to redeliver the relevant Financial Instruments. This collateral will be held by Stichting BUX Collateral.

You run a default risk on the Borrower. If the Borrower would become insolvent, it may be unable to return the Lent Financial Instruments to You. There may also be other circumstances in which the Borrower is unable to return the Lent Financial Instruments to You.

If the Borrower is, for whatever reason, unable to redeliver the Lent Financial Instruments, Stichting BUX Collateral will apply the collateral it holds to acquire equivalent Financial Instruments, which will then be delivered to you. Although BUX will monitor on an ongoing basis whether the amount of collateral is sufficient to meet the Borrower's obligations in connection with the Lent Financial Instruments, it is possible that the execution value of the collateral turns out to be lower than expected. If the execution value is insufficient, there is a possibility that you will not receive back all of your Financial Instruments.

If the Borrower would become insolvent at a moment on which (a) it has already borrowed the Lent Financial Instruments, and (b) the Stichting BUX Collateral has not yet received the relevant collateral, you will have an unsecured claim via BUX in the Borrower's bankruptcy estate. In this specific situation it is unlikely that you will receive back all of your Financial Instruments. You will not have any recourse against BUX in connection with the Lent Financial Instruments.

Repurchase risk

In the event that the Borrower cannot meet its obligations in relation to the Lent Financial Instruments, Stichting BUX Collateral will apply the collateral it holds to buy equivalent Financial Instruments in the market. There is a risk that the value of the collateral may be insufficient to buy back all the Financial Instruments on the market. If the market price increases during the liquidation process, it is highly likely that the collateral may prove to be insufficient and you run the risk of a loss.

Selling risk

As set out above, the lending of your Financial Instruments does not affect your ability to sell those Financial Instruments on the market. However, under exceptional market circumstances, such as an unexpected high amount of sell orders by BUX clients, it is possible that you will not be able to sell your Lent Financial Instruments within the timeframe desired by you.

Timing risk

In the event that Stichting BUX Collateral would need to use the collateral which the Borrower provided, to meet the Borrower's obligations in connection with the Lent Financial Instruments, there will be a period of time between (i) the moment when Stichting BUX Collateral starts to use the collateral to acquire equivalent Financial Instruments, and (ii) the moment when equivalent Financial Instruments are delivered to you. It is likely that you will during this period be unable to sell the Lent Financial Instruments concerned.

Price risk

Aside from whether the Financial Instruments are Lent or not, you are always exposed to price risk on the Financial Instruments. The price of Financial Instruments rises and falls, this risk continues to exist.

Operational and third party risks

In order for BUX to facilitate Lending Your Financial Instruments and receive collateral from Borrowers for Your Risk and Your Account, it has entered into certain services arrangements with professional parties with vast experience in lending Financial Instruments. These professional parties may from time to time provide administrative, custodial/collateral and other services that are ancillary (hereafter: Ancillary Services) to the Lending services provided by BUX. If BUX or such professional parties would go insolvent, default or for other reasons no longer be able to perform such Ancillary Services or in case of faults in the provision of such Ancillary Services, there is a risk that the return of your Lent Financial Instruments, the receipt and monitoring of collateral received from Borrowers and other aspects of Lending are delayed or otherwise negatively impacted.

