

SEC Rule 10c-1a | Paving the path for transparent securities lending markets

Delving into the key takeaways, impact to market participants, and implementation requirements

SEC Rule 10c-1a aims to enhance market transparency through robust reporting requirements for securities borrow and lending transactions.

Historical origin

In an effort to mitigate a recurrence of the Great Financial Crisis (GFC), to strengthen the financial stability of the US markets, to decrease systemic risk, enforce accountability, and protect consumers from opaque and deceptive financial services, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act¹ in 2010.

Specifically, Section 984(b) of the Dodd-Frank Act called for:

“
Section 984
Increased transparency of information available to brokers, dealers, investors, with respect to loan or borrowing of securities
”

In alignment with the objectives of the Dodd-Frank Act and the heightened demand for transparency amongst market participants, the Securities and Exchange Commission (SEC) published Rule 10c-1a. This Rule lays the groundwork for enhanced supervision and transparency in the securities lending markets.

Likewise, the European Union published the Securities Financing Transaction Regulation (SFTR) in January 2016, establishing the mandatory reporting requirements of securities financing transactions (SFTs) to a central trade repository. Starting in July 2020, SFTR was implemented in multiple stages based on the type of entity involved.

Overall, market transparency is a key theme that has been resonating globally amongst financial regulators, reflecting a collective effort to enhance market oversight.

Purpose

On October 13th, 2023, the SEC adopted Rule 10c-1a, paving the path for enhanced transparency and efficiency in the US securities lending markets.

This Rule obliges certain market participants to report the details of their securities lending transactions to a Registered National Securities Association (RNSA) for improved market governance and oversight. Presently, the Financial Industry Regulatory Authority (FINRA) is the only RNSA in the U.S.

In response, on May 1, 2024, FINRA proposed a new Rule 6500 Series (Securities Lending and Transparency Engine (SLATE™))² to implement the requirements of Rule 10c-1a. The Proposed Rule would establish reporting requirements and require FINRA to aggregate the reported transactions and publish a subset of the anonymized data attributes to the broader market the following business day. Sensitive information, such as loan amounts, would be publicly available 20 days after the Covered Securities Loan is reported or modified. In facilitating this reporting, FINRA will enable greater transparency into the industry's transaction activity and loan terms (e.g., loan rates, etc.) for reportable securities.

Several topics requiring review and clarification by the SEC include definition of “time effected”, inclusion of intraday activity, and the addition of modifier fields such as an affiliate indicator. Additionally, FINRA's proposed cost structure is still pending.³

Presently, the SEC is expected to either approve or reject or start the proceedings to consider rejecting Rule 6500 Series (SLATE) on November 4th, 2024.⁴

Well-defined and concise regulatory requirements are critical drivers to safe, transparent, and efficient securities lending markets.

¹ Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank); Section 984: <https://www.congress.gov/111/plaws/publ203/PLAW-111-publ203.pdf>

² FINRA's Proposed Rule Change to Adopt the FINRA Rule 6500 Series (Securities Lending and Transparency Engine (SLATE)), May 1st, 2024

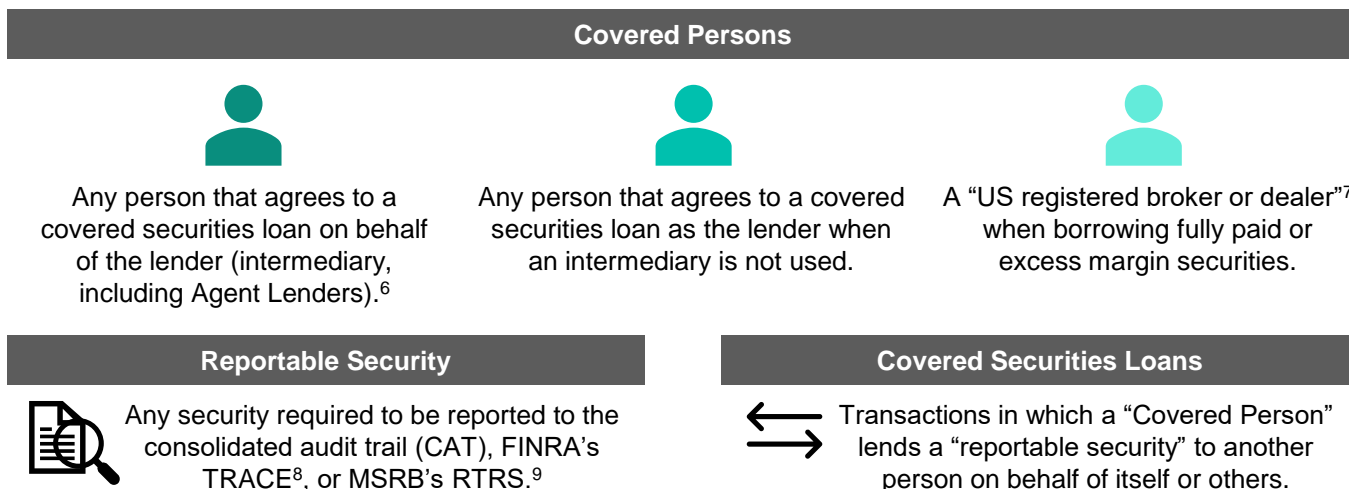
³ ISLA America's comment letter to the SEC: Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Adopt FINRA's Rule 6500 Series (Securities Lending and Transparency Engine (SLATE™)) (File No. SR-FINRA-2024-007), July 16th, 2024

⁴ Expected timeline is as-of October 2024 and is subject to change; November 4th, 2024, derivation: May 7th (publication in the federal register) + 1 business day + 180 days

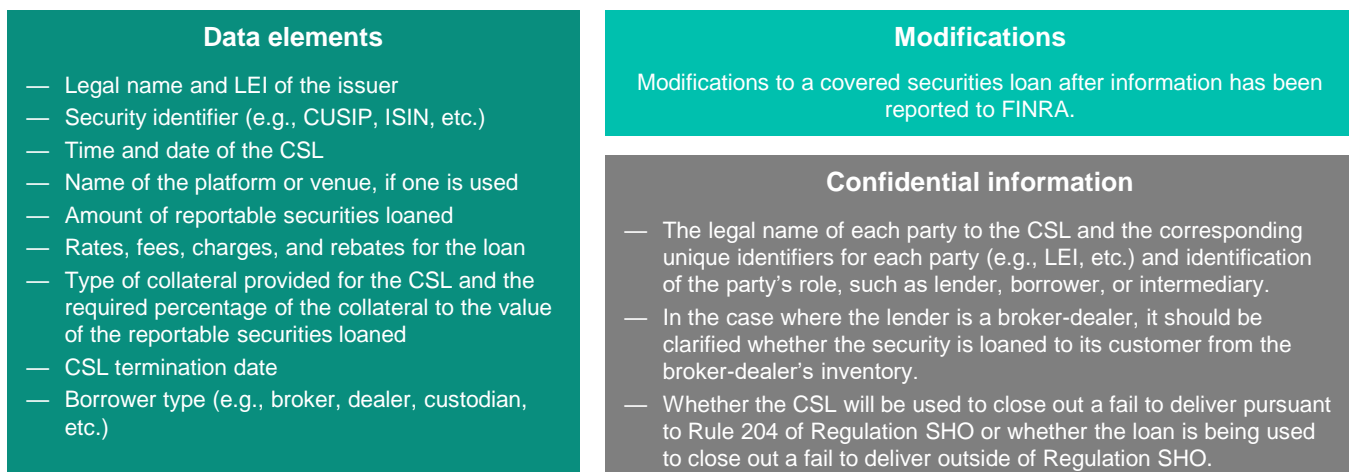
Summary of the Rule

The Rule requires a “Covered Person” entering a “Covered Securities Loan” to submit specific transaction information to FINRA by the end of the day on which the loan is reported or modified, enabling FINRA to publish certain transaction details and data attributes by morning of the following business day.

Key definitions⁵:



Reporting requirements for Covered Securities Loans (CSLs)⁵:



Key responsibilities, processes, and governance considerations for Reporting Agents⁵:

- Covered Persons may choose to have Reporting Agents (i.e., brokers, dealers, or registered clearing agencies) facilitate reporting obligations on their behalf, as long as both parties have formalized the arrangement through a written agreement, have established policies and procedures to maintain effective governance, and the Covered Person is able to provide access to timely information.
 - The Reporting Agent must also enter into a written agreement with FINRA, authorizing the Reporting Agent to provide the required Rule information on behalf of the Covered Person.
 - The Reporting Agent must adhere to FINRA’s required record preservation protocol, preserving for a period of not less than three years, the first two years of data in an easily accessible place (e.g., written agreement entered with Covered Person, time receipts of information obtained from Covered Person, records of information submitted by Reporting Agent to FINRA, as well as the time of transmission to FINRA, etc.).
- Additionally, Covered Persons can utilize third-party vendor service providers to facilitate their reporting duties.

⁵ Securities and Exchange Commission – 17 CFR Part 240, Release No. 34-98737 File No. S7-18-21

⁶ Excluding clearing agencies when providing only functions of a central counterparty or a central securities depository

⁷ SEC Rule 10c-1a refers to “broker or dealer” in the context of US operations, implying that the entity must be U.S. registered

⁸ TRACE: Trade Reporting and Compliance Engine

⁹ MSRB’s RTRS: Municipal Securities Rulemaking Board’s, Real-Time Transactions Regulation

10c-1a & SFTR: Comparing regulatory attributes

Both, Rule 10c-1a and SFTR, aim to boost market transparency, efficiency, and reduce systemic risk through enhanced reporting requirements, yet the regulations differ in several key aspects:

Rule 10c-1a		SFTR ¹⁰
SEC	Regulator	ESMA / FCA
Securities transactions that are reported under CAT, TRACE, and RTRS	Applicability	Borrowing and lending, Repo and Reverse Repo, Buy Sell Backs, Sell Buy Backs, and Margin Lending; All European legal entities, non-EU branches of EU firms and EU branches of 3 rd country firms
Securities loan transactions and modifications (Equities and Fixed Income), excluding repo	Scope / Reporting requirements	10 reportable lifecycle events (e.g., new, modification, termination, etc.)
No	Dual-sided reporting?	<i>Dual-sided:</i> UK vs. UK transactions & EU vs. EU transactions; <i>Single-sided:</i> EU vs. UK (and vice versa) transactions
Covered Persons and Reporting Agents	Authorized reporters	Not specifically defined / required (i.e., organization interpretation)
Daily reporting activity, reported COB	Reporting type	Performed on Trade Date and T+1 on an intraday and end-of-day basis. Reporters can report in near real-time
By close of business, as of effective date	Reporting submission timeline	Required by close of business on T+1 or earlier, if available; Collateral is reported on S+1
SEC ¹¹ : 12 – 30 FINRA ¹² : 44+	Number of required reporting fields	155
Consolidated transactions on T+1 Loan level data (e.g., loan amounts) on T+20	Availability of publicly reportable data	Weekly reports distributed by trade repositories; Driven by RTS requirements covering specified aggregated fields

Select snapshot: FINRA's guidance

- In response to SEC's Rule 10c-1a, FINRA has proposed the new FINRA Rule 6500 Series (SLATE Rules), which establish reporting and submission requirements through FINRA's proprietary platform – the Securities Lending and Transparency Engine (SLATE).
- If the Proposed SLATE Rules are granted regulatory approval, Covered Persons and Reporting Agents would be obliged to participate and commence reporting beginning on January 2nd, 2026; FINRA will commence public dissemination of securities loan information on April 2nd, 2026.
- Proposed FINRA Rule 6520(a)(2) states that a SLATE Participant's required participation is contingent on continued compliance with the following requirements:¹³

Key requirements



Obtain an MPID¹⁴ for reporting covered securities loans to SLATE



Execute and comply with the SLATE Participant application agreement and comply with all applicable rules and operating procedures of FINRA and the SEC



Maintain the physical security of the equipment located on the premises of the SLATE Participant to prevent unauthorized entry of information into SLATE

¹⁰ SFTR reporting summary is as of October 2024 and is subject to change

¹¹ Securities and Exchange Commission – 17 CFR Part 240, Release No. 34-98737 File No. S7-18-21

¹² SEC: 12 mandatory reporting fields, 3 fields relating to confidential submissions, and up to 15 fields for loan modifications; FINRA (pending regulatory review): 44 reportable fields for new loans, 34 fields for loan modifications (45 fields for loans not previously reported), 12 fields for cancellations, 48 fields for corrections, and 9 fields for delete events

¹³ FINRA – Proposed Rule Change to Adopt the FINRA Rule 6500 Series (Securities Lending Transparency Engine (SLATE))

¹⁴ MPID: Market Participant Identifier

Navigating the 3 C's: Complexities, Costs, and unintended Consequences

At present, implementing Rule 10c-1a introduces several key challenges across the securities lending lifecycle and requiring examination, analysis, and coordination amongst industry participants to resolve:

Operating complexities



Data complexities:

Gathering and reporting detailed transactional data can be complex, requiring robust data management systems.



Regulatory interpretation:

Interpreting SEC Rule 10c-1a requirements and ensuring compliance with evolving regulatory expectations.



Technical challenges:

Integrating disparate data sources across the securities lending lifecycle and ensuring data integrity throughout the reporting process.

Financial implications and costs



Technology & resource investments:

Upgrading or implementing new data management systems and reporting tools. Additional investment considerations for Reporting Agents or Service Providers.



Compliance resources:

Allocating resources for training, compliance monitoring, and potential regulatory audits.



Operational overhead:

Maintaining ongoing compliance efforts and managing potential fines or penalties for non-compliance.

Unintended consequences



Operational burden:

Increased administrative workload associated with data collection, validation, and reporting.



Market impact:

As drafted, the current reporting requirements have the potential to overstate actual lending activity, potentially misrepresenting the underlying market dynamics involved. The industry has noted this in its comment letter.



Competitive disadvantage:

Adjustments in competitive positioning due to compliance costs and operational changes.



FINRA's fee schedule has yet to be published and is a key variable in the cost-benefit analysis for market participants.

Understanding the high-level implementation guidelines

Implementing SEC Rule 10c-1a involves compliance with regulations that bolster transparency and uphold market integrity. The Rule requires Covered Persons or their designated Reporting Agents to disclose information related to securities lending activities to FINRA, requiring a series of enhancements across the existing securities lending lifecycle.

Consider reviewing the below guidelines prior to designing and developing your Firm's implementation roadmap:

SEC Rule 10c-1a: Implementation guidelines

	Key consideration	Description
Understanding the requirements	Scope	SEC Rule 10c-1a requires reporting of information related to securities lending transactions, including the identity of the borrower, loan terms, and any compensation received.
	Timing	Reporting is required within a specified timeframe after the transaction or modification occurs.
	Data elements	Detailed data elements such as unique transaction identifiers, security descriptions, quantities, prices, and dates are necessary for reporting.
Assessing the existing infrastructure	Data sources	Identify internal systems and sources of data (e.g., trading platforms, loan management systems, etc.) that capture necessary information for reporting.
	Data quality	Evaluate the quality and consistency of data captured to ensure accuracy in reporting.
	Technology	Assess whether current systems can handle the volume and complexity of data required for reporting and real-time monitoring. <ul style="list-style-type: none"> — Part of this discussion might include service providers who will enter this space to facilitate reporting.
Designing the reporting processes	Data mapping	Map required data elements to existing data sources to ensure all necessary information is captured.
	Integration	Implement mechanisms for data extraction, transformation, and loading (ETL) from various sources into a centralized reporting system.
	Validation	Develop validation procedures to ensure completeness, accuracy, and timeliness of reported data.
Implementing compliance controls	Internal controls	Establish internal controls to monitor and review compliance with SEC Rule 10c-1a requirements.
	Training	Provide training to relevant staff on the requirements of the Rule-and the importance of accurate reporting.
	Audit trails	Maintain audit trails documenting the reporting process and any modifications to reported data.
Coordinating & testing with FINRA	Registration	Ensure Agent Lenders are registered with FINRA and have access to necessary reporting systems.
	Testing	Conduct testing and validation with FINRA's test environment to ensure compatibility and accuracy of data submission.
	Communication	Establish communication channels with FINRA for inquiries and guidance related to SEC Rule 10c-1a compliance.
Facilitating Client communication & education	Communication	Agent lenders must communicate Rule 10c-1a's implications to their clients, including beneficial owners, to ensure transparency and understanding of it impacts securities lending activities.
	Education	Educating clients on compliance requirements and reporting obligations under the Rule are crucial for maintaining client relationships and trust.
Monitoring & integrating updates	Monitoring	Implement ongoing monitoring of data submissions to identify and address any issues or discrepancies promptly.
	Updating	Stay informed of updates to SEC regulations and FINRA guidance that may impact reporting requirements.

Frequently Asked Questions (FAQs)¹⁴

1

When does the SEC's review period conclude?

The SEC is currently expected to conclude the review period on November 4th, 2024 (180 days from May 8th), resulting in the approval or rejection of the proposed FINRA Rule 6500 Series (SLATE). However, the expected decision date is subject to change and may be pushed back by up to 60 days, potentially delaying the final SEC ruling until early January 2025.

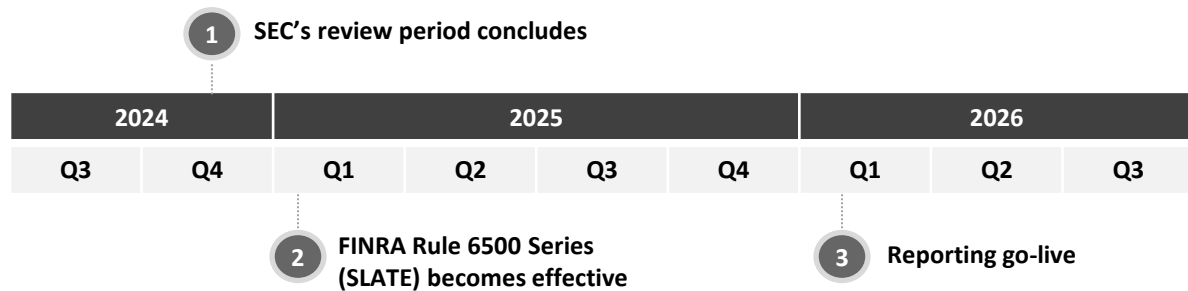
2

Has FINRA published a fee schedule in association with Rule 6500 Series (SLATE)?

As of October 2024, FINRA has not disseminated a fee schedule. Market participants have enquired regarding the projected timeline for the fee schedule publication in their comment letters to the SEC, as it is a major factor for their cost analysis. The industry is eager to understand the fee structure (e.g., fixed fee, per transaction, etc.) as well as the payment structure (e.g., weekly, monthly, etc.).

3

What are the additional milestones between current state and go-live¹⁵?



4

Does your Firm have any questions regarding the Rule's impact to your organization?

If so, please reach out to Fran Garritt and Michael Martinen for further discussion:

- Fran Garritt: fran.garritt@ISLAAmericas.org
- Michael Martinen: mmartinen@kpmg.com

Key next steps for your Firm's consideration



Review SEC's and FINRA's Rule guidance:

Develop a thorough understanding of SEC's and FINRA's functional and technical reporting requirements for Rule 10c-1a.



Coordinate and conduct a robust impact assessment:

Analyze the upstream and downstream impact to your Firm's existing reporting and regulatory compliance processes.



Identify data requirements and opportunities for processing enhancement:

Determine and map changes to the Firm's data architecture and the cross-functional, processing lifecycle, considering internal and external data sources and technical requirements.



Align on change requirements with vendors:

Discuss any new or updated data requirements with vendors, aligning on technical changes and testing SLAs.

¹⁴ FAQs and corresponding feedback are as of October 2024 and are subject to change based on new developments and industry updates

¹⁵ Timeline is subject to change based on the SEC's additional review, commentary, or proposed updates

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Learn more at www.islaamericas.org



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Glossary – Key industry terms and descriptions

Glossary – Securities lending

Term	Description
SEC – Securities and Exchange Commission	In response to the stock market crash of 1929, the government enacted the Securities Exchange Act of 1934, which established the Securities and Exchange Commission (SEC) to protect investors and maintain market integrity. The SEC’s main purpose is to enforce laws against market manipulation, ensure full public disclosure, protect investors, and facilitate capital formation.
CAT – Consolidated Audit Trail	In 2012, the SEC introduced the Consolidated Audit Trail (CAT), which is a large-scale database used by regulators to track all transaction activity relating to the U.S. equity and options markets.
RNSA – Registered National Securities Association	SEC’s Rule 10c-1a requires a Registered National Securities Association (RNSA) to collect securities lending transaction information from certain market participants to facilitate market oversight functions. RNSAs are required to publish aspects of the securities lending transactions to the broader market within specified time frames. At present, FINRA is the only RNSA in the US.
FINRA – Financial Industry Regulatory Authority	A self-regulatory organization (SRO) that operates under the supervision of the SEC to regulate brokerage firms and exchange markets in the US. Specifically, FINRA’s main purpose is to establish and enforce rules governing broker-dealers, examine firms for compliance, foster market transparency, and educate investors.
TRACE – Trade Reporting and Compliance Engine	FINRA established TRACE to facilitate the mandatory reporting of over-the-counter (OTC) secondary market transactions in eligible fixed income securities. The tool collects, consolidates, processes, and distributes transaction information to enhance market efficiency and transparency.
SLATE – Securities Lending and Transaction Engine	FINRA established the SLATE platform to enhance transparency and efficiency of the securities lending market. The platform was developed in response to the SEC’s Rule 10c-1a under the Securities Exchange Act of 1934. The Rule mandates the reporting of securities loans information to a RNSA, which, as of now, is FINRA. SLATE would serve as the platform through which FINRA members and certain non-members involved in securities lending would report detailed information about their securities lending transactions. This information includes, but is not limited to, details about the securities loaned, the terms of the loans, the parties involved, and the collateral provided. Through the system, FINRA aims to collect and disseminate data to improve market transparency, allowing for better monitoring and management of risks associated with securities lending activities.
MSRB – Municipal Securities Rulemaking Board	An SRO established by Congress to regulate municipal securities firms, banks, and municipal advisors that engage in municipal securities and advisory activities to promote a fair and efficient market.
RTRS – Real-Time Transaction Reporting System	MSRB-managed system, which collects and disseminates municipal securities transaction details. Specifically, market makers are required to report transactions within 90 seconds of execution. Transaction reports are published in real-time and assist in price discovery and enhance market transparency.
MPID – Market Participant Identifier	Unique identifier assigned to broker-dealers and other market participants that engage in buying, selling, and trading securities. This alphanumeric code, typically consisting of four characters, is used across various electronic trading platforms and reporting systems to identify the transaction activities of a specific market participant. MPIDs facilitate the efficient processing, monitoring, and regulation of trades, ensuring the integrity and transparency of financial markets by enabling regulatory bodies and exchanges to track the activities of participants.
SFTR – Securities Financing Transactions Regulation	European Union regulation introduced to increase transparency in the securities financing market. Adopted by the European Parliament and the Council of the European Union, the regulation came into force in January 2016. Its primary aim is to enhance the transparency of securities financing transactions (SFTs), including repurchase agreements (repos), securities lending activities, and buy-sell back or sell-buy back transactions. Post BREXIT, the UK’s FCA adopted SFTR reporting requirements and is considering revisions.
LEI – Legal Entity Identifier	Legal Entity Identifiers (LEIs) were established after the Great Financial Crisis (GFC) to enhance financial transparency, support risk management, and help prevent fraud by providing information about entities’ legal names, addresses, and ownership structures. An LEI consists of a 20-character code, which uniquely identifies entities involved in financial transactions worldwide.