

March
2026

**New Opportunities
for Fully-Paid Borrow:
Equity-for-Equity Securities Loans**



Executive Summary

Following a multi-year regulatory engagement effort led by ISLA Americas and SIFMA, we are pleased to announce an important new development for the U.S. securities lending market. On March 30, 2026 the Securities and Exchange Commission (SEC) provided regulatory relief from the custody rules for registered broker-dealers to permit such broker-dealers to pledge baskets of Russell 1000 and/or S&P 500 equity securities, including ETFs based on these indices, as collateral when borrowing equities from qualified institutional clients (“equity-for-equity fully-paid borrow” or “E4E”).

This E4E relief reduces the need for broker-dealers to employ a “two-transaction model” for facilitating customer short sales. Under that model, broker-dealers repo or pledge customer equities and receive cash to help fund long purchases while posting cash collateral to the same counterparty to borrow equities used to facilitate short sales or other customer transactions. By streamlining the borrowing of equities against equities into a single transaction, this regulatory action is anticipated to significantly reduce operational complexity and counterparty exposures during times of market volatility.

This expansion of permitted broker-dealer activity comes in the form of relief from various restrictions imposed by Rule 15c3-3 (the “Customer Protection Rule”) under the Securities and Exchange Act of 1934 (the “Exchange Act”). The relief is provided through two parts: an exemptive order issued on March 30, 2026 in SEC Release No. 34-105108 (the “E4E Order”) and a No-Action Letter issued on the same day.¹ The E4E Order sets out the basic terms of permitted E4E transactions, including permitted counterparties and security types, while the No-Action Letter allows broker-dealer to take deductions in their equity cash reserve calculations for the delivery of equity collateral provided they satisfy certain enhanced operational requirements.

This development represents a carefully structured evolution in the U.S. securities lending framework. The SEC’s action does not introduce a new economic activity but rather permits a more efficient and transparent structure for equity borrowing that has historically been achieved through multiple transactions.

Participation in equity-for-equity transactions is entirely optional and subject to bilateral agreement, internal risk approval, and existing fiduciary and regulatory constraints.

This paper provides an initial overview of these rule changes, including details of the specific conditions for participation, and some factors your firm needs to consider to potentially take advantage of these new opportunities.

ISLA Americas will be hosting an event to dive deeper into the operational and technical details. Please check our event calendars regularly.

¹ ISLA Americas and Securities Industry and Financial Markets Association, SEC No-Action Letter (March 30, 2026)
<https://www.sec.gov/files/rules/other/2026/34-105108.pdf>
<https://www.sec.gov/files/isla-sifma-20260330-15c3-3.pdf>



Current State

Understanding Rule 15c3-3 and Broker-Dealer Securities Borrowing

The SEC's Customer Protection Rule is designed to safeguard customer assets that are held in custody at a broker-dealer by requiring segregation in specific locations to ensure that the assets are available to be distributed in a bankruptcy. While broker-dealers are permitted under the Customer Protection Rule to use certain customer cash and securities to fund customer margin loans and offer financing for short selling to customers, excess assets must be locked up. An exception to this lock-up requirement is Rule 15c3-3(b)(3), which permits broker-dealers to borrow customer securities, provided that the broker-dealer delivers specific types of high-quality collateral to the customer and maintains 100% collateralization through daily marking to market.

While the rule is focused on proper custody of customer assets, the term "customer," as used in the Customer Protection Rule is generally interpreted broadly to cover most lenders, including institutional securities lenders. Accordingly, prior to the E4E Order, a broker-dealer that borrowed securities from third-party lenders was generally required to pledge collateral consisting of qualified assets limited to cash, U.S. Treasury securities, letters of credit and certain other high-quality debt securities.

In addition, the Customer Protection Rule requires broker-dealers to run "Special Reserve Formula" calculations at least once a week, to determine how much customer cash the broker-dealer must deposit in designated bank accounts. Because broker-dealers are permitted to use customer cash and securities to finance margin loans and short sales for their clients, this formula requires certain balancing calculations. Under these balancing calculations, broker-dealers are permitted to offset "debits" (e.g., for financing clients) against mandatory "credits" (e.g., for cash deposits from customers and cash raised using customer securities) and are then required to segregate the net "credits" that exceed aggregate "debits". Because broker-dealers may have limited capital to support lending to clients, it is economically important that they be permitted to recognize these formula debits when they borrow securities for use in settling customer short sales and other sales. However, under historical SEC interpretations, broker-dealers were only permitted to recognize these debits when cash or U.S. Treasuries were pledged for borrowing securities.

² In a 2003 order, the SEC formally expanded this list to include GSE and other "government securities" as defined in Section 3(a)(42) of the Exchange Act, securities issued or guaranteed by Multilateral Development Banks, and mortgage-backed securities as defined in Section 3(a)(412) of the Exchange Act, and various foreign sovereign debt securities, though the useability of these categories was practically limited. SEC Release 34-47683 (April 16, 2003), 68 Fed. Reg. 19863. A prior amendment to the Customer Protection Rule delegated authority to the Director of the Division of Trading and Markets (then Market Regulation) to enumerate additional categories. SEC Release 34-47480 (March 17, 2003), 68 Fed. Reg. 12780.

³ Broker-dealers may also deposit U.S. Treasury securities in lieu of cash.



Future State

Understanding the Change: The E4E Order

The E4E Order is a carefully structured expansion of Rule 15c3-3(b)(3). It allows broker-dealers and their counterparties to collapse the two-step repo/stock borrow process into a single borrow of equities against a basket of customer equity securities.

This may have the effect of accomplishing the following benefits:

- Simplifying transactions and decreasing operational touchpoints.
- Better aligning collateral with equity exposure.
- Aligning booking model with current international practices.

Transactions must adhere to the following conditions:

A. Who Can Lend? (“Qualified Institutional Securities Lenders”)

The Order restricts E4E transactions to certain institutional lenders. Broker-dealers can pledge equity collateral when borrowing equities from any lender, that is a:

- 1. Qualified Institutional Buyer (“QIB”)** as defined in Rule 144A under the Securities Act of 1933. This category includes a variety of financial institutions, including broker-dealers, banks, insurance companies, pension funds, registered funds and advisers as well as non-financial entities. Most categories of QIBs, however, are limited to entities that own and invest on a discretionary basis at least \$100 million in securities of non-affiliates. It is important to note that registered investment companies may be aggregated together if they are part of the same fund family;
- 2. Large Institutional Investor:** An entity that discretionarily owns and invests at least \$100 million in securities of unaffiliated issuers, is also eligible, regardless of type; or
- 3. Principal in Bank Agent Lending Program:** A principal lender represented by an agent lender that is a “bank” (as defined in the Exchange Act) that has, as agent, at least \$100 million in outstanding loan value exclusive of activity with the borrower.

B. What Collateral is Permitted? (“Eligible Equity Collateral”)

The collateral must be a basket of Russell 1000 and/or S&P 500 equity securities, including ETFs that are based on these indices. These indices were chosen for their liquidity and market depth. If a security is removed from these indices, broker-dealers have a five-business-day grace period to substitute it for other eligible collateral.

While “a diversified basket” is not further defined in the Order, the Order requires the parties to an E4E transaction to maintain agreed concentration and diversification standards for the collateral. Accordingly, the order will likely impose limits on single-issuer and single sector exposure concentrations within the basket. Although the Order does not prescribe numerical concentration thresholds, the concentration and diversification standards requirement is clearly intended to limit issuer-specific and sector concentration risk, consistent with prevailing market standards for collateral risk management.

C. Key Operational Requirements:

In addition, broker-dealers must satisfy other operational requirements that are generally consistent with the broader requirements for borrowing securities under the Customer Protection Rule:

- 1. Daily Mark-to-Market:** Securities borrowed must be collateralized at least 100%. Loans must be marked to market daily, and collateralization deficiencies must be remedied within one business day as is the current required practice.
- 2. Custody:** Broker-dealers borrowing securities under Rule 15c3-3(b)(3) must generally deliver collateral “away” to their lenders (they may not hold the collateral in custody). Under the E4E Order, all pledged Eligible Equity Collateral must also be held at a qualified bank, or broker-dealer, reinforcing customer asset protection and ensuring bankruptcy-remote custody consistent with the core objectives of Rule 15c3-3. This can be accomplished via tri-party lending facilities agreed to by the broker-dealer, though broker-dealers are permitted to reasonably rely on representations provided by their lenders that this custody condition is being satisfied.
- 3. Cross-Currency Transactions:** Where the securities borrowed are denominated in a non-U.S. currency,⁴ additional haircuts apply on top of the 100% collateralization requirement and margins may increase depending on the currency exposure between the loan and collateral held.

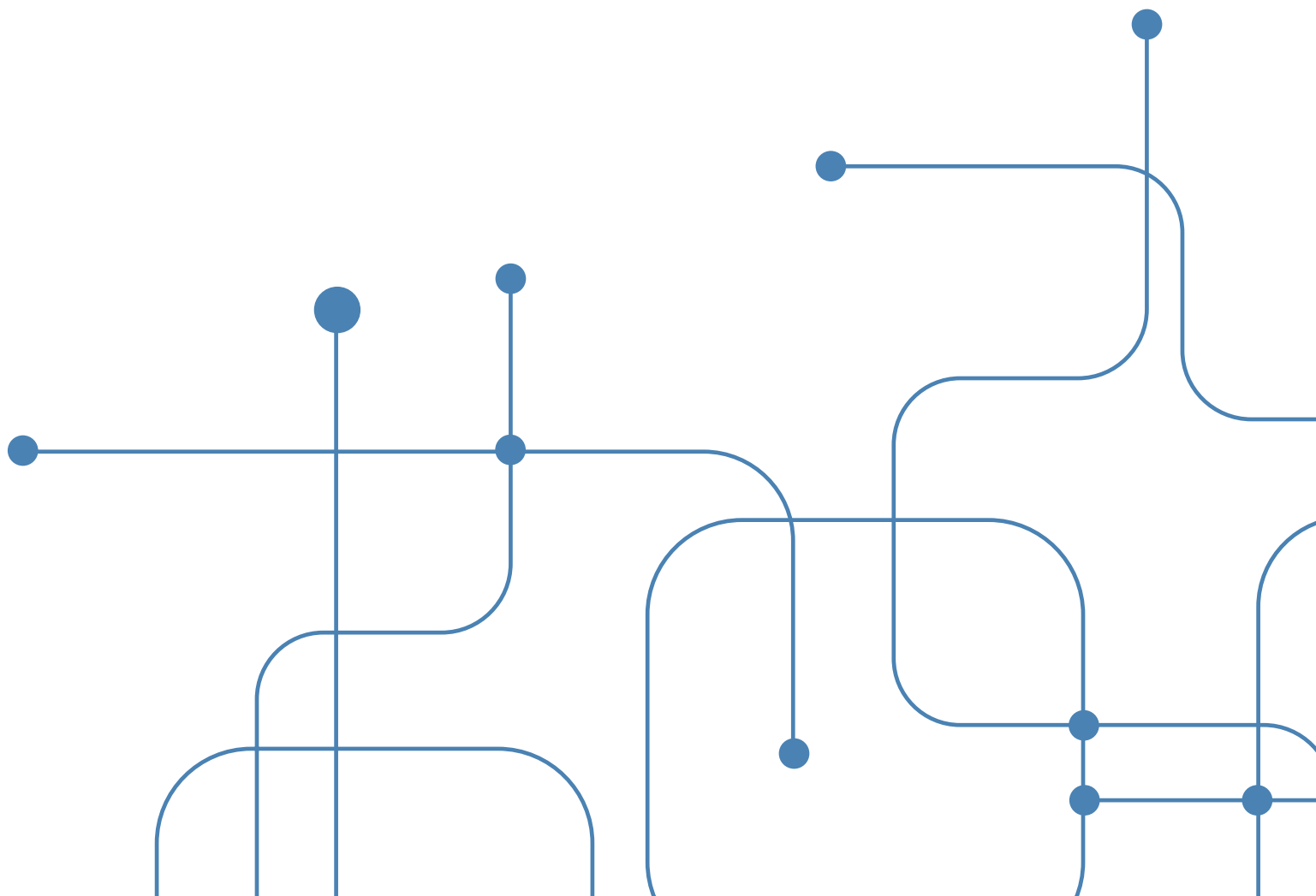
⁴ For this purpose, an equity security is deemed to be denominated in the currency of the primary exchange on which the security is listed and traded.



Understanding the Change: The No Action Letter

- 1. Daily Calculations & Allocations.** To qualify, a broker-dealer must run its Special Reserve Formula calculations daily. They must also perform daily allocations of their transactions to match (i) E4E transactions using customer equities pledged as collateral for equity borrows against (ii) customer sale transactions. Similarly, where a custodial broker-dealer has broker-dealer clients in so-called “PAB accounts,” transactions for these accounts must also be allocated. The purpose of these controls is to ensure that customer securities may only be used to collateralize E4E transactions that are for the customer financing business, while PAB account securities can only be used to facilitate financing for PAB accounts.
- 2. Matching Credits & Debits:** Broker-dealers must book a Special Reserve Formula credit (in Item 3 of the formula) for the market value of the customer equities pledged. This ensures the Special Reserve Formula remains properly balanced.
- 3. Allocation & Internal Controls:** Broker-dealers must *develop, document, and implement daily internal controls* for an “equity for equity allocation.” These controls must:
 - Be reasonably designed to ensure that only customer equity securities are used as collateral for facilitation of customer financing. The use of proprietary (or PAB) securities as collateral to borrow securities to facilitate customer short sales or clean-up customer fails is not permitted.
 - Be made available for review by the SEC and their *Designated Examining Authority* (e.g., FINRA) on request.

The SEC also published updated Reserve Formula Allocation Charts that include new line items for E4E transactions, providing technical guidance for accounting teams.





Key Take Aways for Market Participants

For All Market Participants

Enhancing your platforms is likely required to participate. All participants should review, and as needed enhance, your systems to handle the specific lifecycle events of E4E, particularly the monitoring of collateral eligibility (e.g., tracking index membership) and managing the five-day grace period for ineligible securities.

For Borrowers (Broker-Dealers)

Participation in E4E requires upgrading controls under the Customer Protection Rule. If you wish to participate, your immediate priority should be to develop and document the required internal control systems for the daily E4E allocation. Engage your Operations, Technology, and Compliance teams.

For Beneficial Owners and Agent Lenders

Assess how receiving equity collateral fits into your investment and risk management strategy, particularly for maintaining equity exposure and creating a diversified and well correlated basket of collateral. Assuming this is a tool that fits, priorities should include:

- **Assessing Counterparties:** Determine the abilities and timelines for your broker-dealer counterparties to provide equity collateral.
- **Update Your Agreements:** Ensure your securities lending agreements are amended to permit equity collateral and to outline the diversification standards you require.
- **Confirm Agent Capabilities:** Agent lenders must ensure their platforms are updated to support E4E transactions and to provide the necessary representations to borrowers.

For Tri-Party Agents

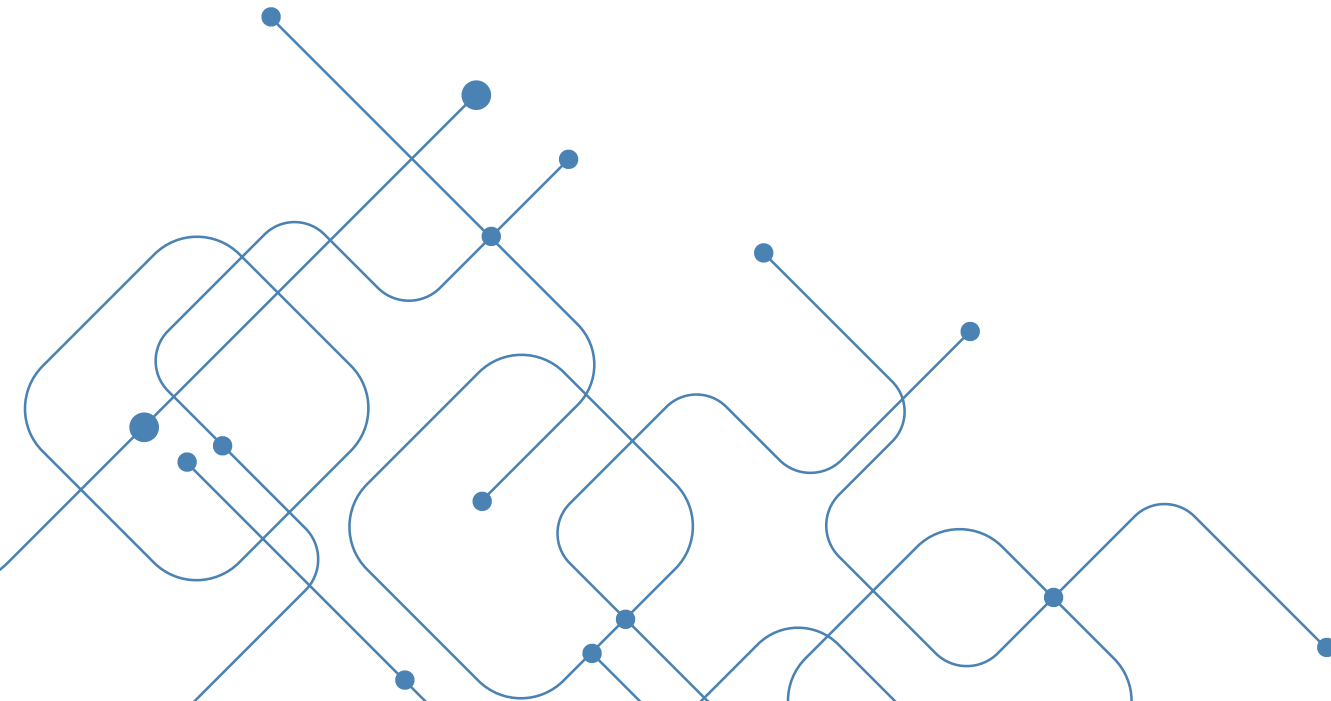
E4E may require additional operational capabilities to comply with collateral eligibility, diversification, and substitution requirements. Engage your clients to proactively communicate your platform's readiness to support E4E collateral management, including daily valuation, diversification reporting, and substitution services.

Registered Investment Companies ('40 Act Funds)

The E4E framework does not alter the fiduciary obligations, investment restrictions, or risk oversight responsibilities applicable to registered investment companies. However, registered investment companies should seek their own independent legal counsel and, if necessary, obtain guidance from the staff of the Division of Investment Management at the SEC.

While SEC guidance has historically referenced cash and U.S. government securities as common forms of collateral, it does not expressly prohibit the acceptance of high-quality equity collateral, provided that funds determine such collateral to be appropriate, sufficiently liquid, and consistent with their investment objectives and risk management programs. In addition, under the E4E framework, the daily mark-to-market and overcollateralization requirements currently followed by registered investment companies remain unchanged.

As with any securities lending arrangement, participation remains subject to fund-specific policies, prospectus disclosure, board oversight, and independent legal review. Funds that determine equity collateral is not appropriate for their program may continue to operate unchanged.





ERISA Plans

For employee benefit plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), Prohibited Transaction Class Exemption 2006-16 (the "Securities Lending Exemption") provides a means to lend securities to banks or broker-dealers that are "parties in interest" to such plans in transactions that would otherwise be prohibited under ERISA, provided the transactions meet certain conditions.

Among other requirements, the Securities Lending Exemption specifies the amount and type of collateral required in a transaction covered by the exemption. In the preamble to the final exemption, the Department of Labor ("DOL") noted that the collateralization requirements in the Securities Lending Exemption were designed to be "consistent with" the Customer Protection Rule, but it nonetheless did not believe that "adopting all the categories of collateral described in Rule 15c3-3" would be sufficiently protective of ERISA plans absent additional safeguards.

Thus while the Securities Lending Exemption permits "any type of collateral described in Rule 15c3-3 of the Exchange Act as amended from time to time", it does so in the context of acceptable "Foreign Collateral" (a term that the exemption

applies to certain categories of collateral regardless of whether the borrower is a U.S. or non U.S. bank or broker-dealer) provided that the lending fiduciary responsible for the transaction on behalf of the plan is a U.S. bank or U.S. broker-dealer that agrees to indemnify the plan for losses resulting from the borrower's default. Additionally, under the Securities Lending Exemption, the value of Foreign Collateral such as that permitted by the E4E Order must be either 102% or 105% of the value of the securities lent, depending on whether the Foreign Collateral is denominated in the same currency as the securities lent or in a different currency.

ERISA plans are therefore advised to seek the advice of counsel in determining the extent to which they may utilize the E4E framework under the Securities Lending Exemption, as well as the amount of collateral required. Further, the applicability of the Securities Lending Exemption to a transaction does not relieve a plan fiduciary from prohibited transaction provisions to which the exemption does not apply, nor from the general fiduciary responsibility provisions of ERISA which, among other things, require a fiduciary to act prudently and solely in the interest of the plan.

Frequently Asked Questions

Q. Can I Use any Stock in the Russell 1000 as Collateral?

A: Yes, but the collateral must be a "basket" and the parties must maintain concentration and diversification standards. While the E4E Order does not define specific percentages, you must agree this with your counterparty. To maintain such standards though broker-dealers can reasonably rely on representations from their counterparties that this requirement has been met. A basket overly concentrated in a single name or sector would likely not comply.

Q. Does this Apply to Borrowing Government Bonds?

A: No. The E4E Order is specific to borrowing equity securities. The collateral must also be the defined Eligible Equity Collateral.

Q. Who is Responsible for Monitoring if the Collateral Stock Remains in the Index?

A: The borrowing broker-dealer is ultimately responsible for ensuring collateral eligibility. However, triparty agents will play a key role in providing this monitoring service to clients.

Q. Is this Mandatory?

A: No. This is a permissive rule change. Firms and their counterparties can choose to adopt E4E transactions but are not required to do so.



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About ISLA Americas

Incorporated in May 2024, ISLA Americas is a non-profit industry association, presently representing the common interests of securities lending firms in the Americas region, namely institutional investors, custodial and third-party lending agents, prime brokers, banks and industry service providers.

ISLA Americas is an affiliate entity of the long-established International Securities Lending Association (ISLA) – the leading trade association for securities financing market participants across Europe, Middle East, and Africa (focusing primarily on securities lending and borrowing (SLB) activity).

ISLA Americas works with the industry, as well as with national, regional, and global regulators and policy makers, to advocate for, amongst other things, the importance of securities lending to the broader financial services industry.

Over time, ISLA Americas and ISLA will continue to serve their respective regional members while also supporting firms with global operations that are members of both associations. Operating under the same brand, both associations work together to provide a more cohesive output, reflecting multi-jurisdictional operating models and addressing the growing demand for a unified global advocacy voice across regions.

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