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SEC finalizes reporting of securities loans

On October 13, 2023, the Securities and Exchange Commission (SEC) adopted Rule 10c-1a, which will require certain persons to report information about securities loans to a Registered National Securities Association (RNSA) and require RNSAs to make publicly available certain information that they receive regarding those lending transactions.[1] The rule is intended to increase the transparency and efficiency of the securities lending market.

With the Financial Industry Regulatory Authority's (FINRA) proposed rules expected by April 2024, market participants can now begin preparing for their new compliance obligations under 10c-1a.

Deloitte's takeaways

Evolving market:

- **Increased accessibility and efficiency:** Rule 10c-1a requires reporting of key terms of securities loans to a RNSA, providing valuable data for market participants and regulators. Increased data accessibility can lead to a more efficient market with better pricing and availability of loans.
- **Enhanced market oversight:** The rule will equip regulators with critical information to monitor and address potential risks in the lending market, such as short squeezes and market manipulation.
- **Transparency boost:** Key information will be publicly available (borrower type, security loaned, loan date), while individual aggregated loan amounts will be published on a delayed basis, designed to balance transparency with privacy concerns.

Operational impact:

- **Information to be reported by covered persons to RSNAs:** Rule 10c-1a requires covered persons to disclose specific aspects of their covered securities loans to a RNSA (FINRA is the only identified RNSA), such as: legal name of issuer; ticker symbol; time and date; platform or venue; quantity of reportable securities loaned; details about the financial terms; type of collateral provided for the covered securities loan; termination date of the covered securities loan; and, borrower type.
- **Lack of de minimis exemption:** No de minimis exemption exists, even for infrequent or small-volume loans, which may burden smaller firms.

Data:

- **Consistency of Data:** The rule will set new expectations for data eligibility, completeness, accuracy, and timeliness standards and will require that a unique identifier be assigned to each loan to track securities lending transactions.

What's Next

- **Preparation time:** Lenders, borrowers, and intermediaries (Covered Persons) need to start preparing now to reasonably ensure they can comply with the reporting requirements by the January 2, 2026, deadline (although Covered Persons won't begin reporting information to FINRA until January 2026).
- **FINRA rulemaking and timeline:** FINRA will release its guidance in April 2024 with final FINRA rules expected in early 2025 and reporting requirements starting in early 2026.

Key considerations

Evolving market:

- **Reduced pricing flexibility:** Publicly available loan rate data may impact firms' flexibility to offer differentiated pricing, based on factors such as client relationships, collateral type, or loan duration. Rates will likely converge towards the market average, which is anticipated to result in reduced opportunities for customized pricing deals.
- **Potential impact on market dynamics:** The increased transparency could impact loan pricing and availability, likely requiring market participants to adapt their strategies.
- **Evolution of market infrastructure:** The new rule presents an opportunity for firms to invest in efficient reporting solutions, contributing to a cost-effective lending environment, and extracting value from newly aggregated data.

Operational impact:

- **Call to action:** Covered Persons should start reviewing their systems and processes to identify any changes needed to capture and report the required data accurately and efficiently.
- **Operational burdens:** The rule presents additional operational impact for Covered Persons, requiring system upgrades and adjustments to existing lending programs which may require additional resources.
- **Data privacy and security:** Covered persons and RNSAs need to implement appropriate safeguards to protect sensitive data, such as borrower and lender identities and loan terms.
- **Cross-border implications:** The rule applies to loans involving non-US persons, regardless of separate reporting regimes in other jurisdictions.

Data:

- **Potential for automation and data analytics:** The increased data availability under the rule could create opportunities for innovative data analytics and automation solutions in the securities lending industry leading to help improve efficiency, risk management, and price discovery in the market.

[1] Securities and Exchange Commission, "Reporting of Securities Loans," final rule, October 13, 2023.

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